The Economist

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Merci, y'all

(But why the heck are you selling arms to China?)

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Why the heck is the European Union planning to sell more arms to China? ... More on this week's lead article

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Politics this week

Feb 24th 2005
From The Economist print edition

Into the lions' den

AP

George Bush's grand tour of Europe took in Brussels, Mainz, in Germany, and Bratislava, Slovakia's capital. Besides visiting the European Union and NATO headquarters, he dined with France's Jacques Chirac, breakfasted with Britain's Tony Blair, and held meetings with Germany's Gerhard Schröder and Russia's Vladimir Putin. Most Europeans were pleased by his renewed emphasis on the value and importance of the transatlantic relationship.

See article

Despite the apparently friendly meeting between Mr Bush and Mr Putin, the Russians were expected to sign a much-delayed agreement to supply Iran with low-enriched **uranium fuel** for a nuclear-power reactor that the Russians have been completing at Bushehr. Earlier, Mr Bush and Mr Schröder issued a demand for Tehran to abandon its military nuclear ambitions.

See article

The Socialists convincingly won **Portugal's** general election. José Sócrates, said to be a moderniser, will be the next prime minister.

See article

Spain's voters overwhelmingly endorsed the **European Union constitution** in a referendum, but on an embarrassingly low turnout. Eyes now turn to trickier ballots in France and the Netherlands.

See article

The **German chancellor**, Gerhard Schröder, suffered a setback in state elections in Schleswig-Holstein. Although his Social Democratic-Green coalition may retain power there, the real winners were the opposition Christian Democrats, who gained fresh heart for next year's elections.

See article

Pope John Paul II was readmitted to hospital. The ailing 84-year-old pontiff has recently been suffering with breathing problems related to a bout of flu.

Britain's minister for Northern Ireland, Paul Murphy, said that he would recommend withholding up to £600,000 ($1.1m) in parliamentary allowances from Sinn Fein, the political wing of the **Irish Republican Army**, following accusations that the IRA was behind a big bank robbery.

See article

Ruud Lubbers stepped down as UN High Commissioner for Refugees over allegations of sexual misconduct. A leaked report by the UN's internal oversight office accused him of a “pattern of sexual harassment” following claims of “inappropriate” behaviour. Mr Lubbers denies the charges.

The people's choice

Dr Ibrahim al-Jaafari, **Iraq's** interim vice-president, looked set to head a new government after the United Iraqi Alliance, the Islamist-inclined list that won last month's general election, named him as its sole candidate for the post.

Israel's cabinet said it would reroute a controversial security barrier, already nearly two-thirds built, so that (in Israel's estimation) it would bite 7% out of the Palestinians' West Bank, rather than 16% as previously planned.

See article

AP

An earthquake near Zarand, in south-eastern **Iran** killed over 500 people. The quake happened 190km (120 miles) from a more devastating one in Bam that occurred in 2003.

A “blogging” **Iranian journalist**, Arash Sigarchi, was sentenced to 14 years in prison by a revolutionary tribunal, after it found him guilty of insulting Iran's leaders and spying—meaning that, among other things, he had contributed to Radio Farda, which broadcasts from America.

Three British soldiers charged with abusing **Iraqi prisoners** were convicted by a court martial in Germany. The charges related to the assault and sexual humiliation of Iraqi looters in southern Iraq in May 2003. A fourth soldier has already been sentenced to 18 months in prison.

Stung by a British diplomat's allegations of corruption in the **Kenyan** cabinet, a Kenyan minister announced that civil servants who leaked information about corruption would be charged with treason.

Lord of the spies

AFP

George Bush nominated **John Negroponte** as director of America's new national intelligence centre. Currently ambassador to Iraq, he will have to co-ordinate the intelligence activities spread around 15 federal departments.

The **Supreme Court** said it would consider a controversial Oregon law that allows doctors to help terminally ill patients end their life. Chief Justice William Rehnquist, who is fighting thyroid cancer, will be absent from the court for at least another two weeks.

See article

Ahmed Omar Abu Ali, an American citizen, was charged with being part of a **plot to assassinate** George Bush. The alleged conspiracy was hatched while the 23-year-old from Virginia was studying in Saudi Arabia; he says he was tortured there.

Harvey Rosen was chosen by Mr Bush to head his Council of Economic Advisers.

Not the best of friends

A spokesman for the United States' government dismissed as “ridiculous” claims by **Venezuela's** president, Hugo Chávez, that the United States was planning to kill him.

See article

Officials in Ottawa said that **Canada** would not take part in the United States' planned ballistic-missile defence system. However, this week the government announced the biggest increase in defence spending for two decades.

In **Haiti**, several hundred prisoners were reported to have escaped after an armed attack on the country's main prison. The interim prime minister rejected calls for his resignation.

Ecuador's interior minister resigned because of his disagreement with the government's appointment of a new Supreme Court.

Peru's Constitutional Tribunal ruled that Alberto Fujimori, the country's president from 1990 to 2000, cannot be a candidate in next year's election. Peru wants to extradite Mr Fujimori, who is living in Japan, on corruption charges.

Danger on the wing

The World Health Organisation gave warning that **bird flu**, which has killed 13 people in Vietnam since December, could cause a human pandemic if the virus mutated.

Australia announced that it would send an additional 450 soldiers to Iraq, to replace departing Dutch troops. The contingent will raise the country's total number of troops in Iraq to over 1,300.

At least 230 people were killed and hundreds more were reported missing in a series of **avalanches** in Indian-controlled Kashmir.

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Business this week

Feb 24th 2005
From The Economist print edition

The best medicine?

Novartis, a Swiss pharmaceuticals group, said it would buy Hexal, a German drugs company, in a merger that will see Novartis become the world's biggest maker of generic drugs (through its Sandoz division). The deal, worth $8.3 billion in total, includes provisions for Novartis eventually to take control of Eon Laboratories, Hexel's American affiliate.

See article

An advisory panel at the Food and Drug Administration (FDA), America's regulator, narrowly voted to recommend that **Vioxx**, Merck's pain-relieving drug for arthritis, be allowed back on the market, albeit subject to strict conditions including warnings to patients of the associated risks of heart failure. The panel said other COX-2 inhibitor drugs, such as Celebrex, should remain on the market. The FDA must now decide whether to act on the advice.

Several investors in **MCI** filed lawsuits arguing that the telecom firm did not take maximum shareholder value into account when it rejected an $8 billion takeover bid from Qwest (MCI recently agreed to a $6.7 billion bid from Verizon). Qwest is expected to launch a revised offer.

The chief executive of **Deutsche Börse**, Werner Seifert, said he would not abandon a takeover bid for the **London Stock Exchange**. Two hedge funds that have recently increased their holdings in the German exchange operator are trying to derail the bid.

See article

The French government launched a **50-year bond**, the world's longest actively traded one. Expected to be popular with pension funds and other investors with long future liabilities, the bond was three times oversubscribed.

Viacom, a media conglomerate, reported a fourth-quarter loss of $18.4 billion. The loss was almost entirely caused by a write-down of the value of its radio and outdoor-advertising businesses.

Fizzy pop

Cadbury Schweppes, a confectionery and fizzy-drinks maker, reported an 18% rise in net profit for 2004, to £431m ($823m). Strong sales in the American market (the company makes Dr Pepper and 7-UP) offset weaker European sales resulting from dismal summer weather.

Home Depot, the world's largest DIY retailer, posted revenues of $16.8 billion for the quarter

ending January 30th, a jump of over 11% on the same period in the previous year (net profit rose by 9%). The retailer was buoyed by sales of large electrical appliances.

Winn-Dixie, a supermarket chain operating primarily in the American South, filed for bankruptcy protection with debts of $1.9 billion. Winn-Dixie's stores, once among the most profitable in America, have been losing market share to rivals such as Wal-Mart.

Omnicom, the world's largest advertising and marketing group, posted earnings of $724m for 2004 (an increase of 14.7% on the previous year), despite recording $70m in costs incurred in complying with Sarbanes-Oxley reforms.

Carlos Ghosn will pass operating control of **Nissan** to Toshiyuki Shiga, a vice-president of the firm, from April 1st. Mr Ghosn will remain as Nissan's chief executive, but will also become chief executive of Renault (which owns 44% of Nissan), replacing Louis Schweitzer.

See article

Audi, Volkswagen's luxury-car unit, said that net profit in 2004 had risen by 7.4% to *euro*871m ($1.1 billion). The results are a boon to Volkswagen, which has seen profits fall over the past three years.

PSA Peugeot Citroën saw net profit fall 9% to *euro*1.36 billion ($1.79 billion) in 2004. The company blamed higher prices for raw materials.

It's a steel

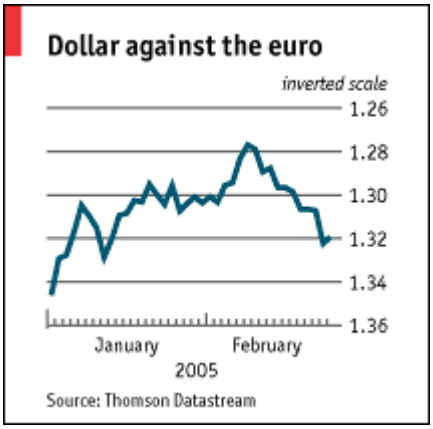
Japan's steelmakers agreed to a hefty 71.5% price increase in **iron ore** in negotiations with CVRD, the world's largest supplier based in Brazil, and Rio Tinto, an Anglo-Australian supplier. The price rise was roughly double what analysts were expecting and led to fears that steelmakers would pass the cost to manufacturers.

Oil prices climbed above $50 a barrel for the first time since October, fuelled by a cold snap in Europe and rising demand for petrol in Asia. OPEC's president tried to reassure markets that prices would not get much higher.

Diminishing worth

The **dollar** fell against leading currencies. Markets were spooked by the decision of the Bank of Korea to diversify its currency holdings, increasing speculation that Asian central banks were moving away from the dollar as a reserve currency (this would cause a problem for America in financing its current-account deficit). The greenback recovered somewhat after the Bank of Korea said its decision did not mean it would sell the American currency.

See article



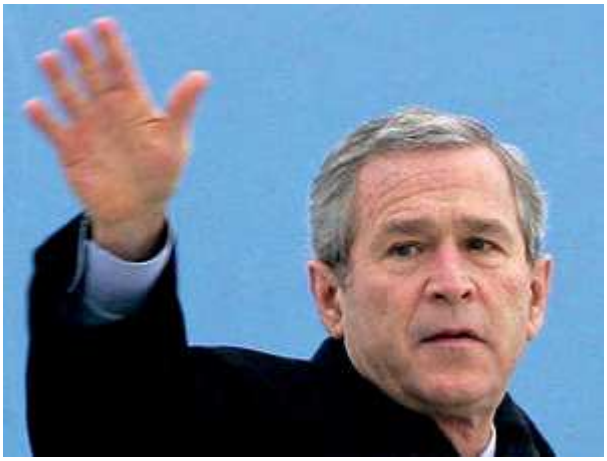
George Bush and Europe

Merci, y'all

Feb 24th 2005
From The Economist print edition

Why the heck is the European Union planning to sell more arms to China?

Reuters



IF ANYONE still doubted that hypocrisy, or at least inconsistency, is endemic in international relations, this week surely proved the point. As George Bush toured Europe emphasising, in speech after speech, that the central principle of his foreign policy is the effort to spread liberty and democracy, Europeans queued up to mutter about how many American allies are unfree and undemocratic, and how contradictory it is to use guns and tanks as prime tools in that cause. Far better, they said, to be a “moral power” like the European Union, spreading freedom through softer and subtler means of influence and engagement—means like, as Mr Bush heard to his horror, lifting the EU's embargo on arms sales to China, in return for precisely nothing from that communist regime on human rights, or democracy, or on its sabre-rattling over Taiwan. Oh, except more trade, including more arms sales.

So stark is the disagreement over the arms embargo, and so keen have European politicians been to emphasise that they plan to go ahead and lift it regardless of what the Americans say, that it is something of a surprise that Mr Bush's visit this week proceeded so smoothly. That it did is largely because the tour was beautifully choreographed, with everyone who mattered given time to say something, but not so much that they could become annoying, especially about the arms embargo, which was kept firmly off the official agenda. Russia's president, Vladimir Putin, the final handshake on Mr Bush's tour, was always going to pose more awkward problems of choreography, which may this time have made Mr Bush even keener to look friendly with Europe's proper democracies.

The visit was also smooth, though, because Mr Bush, at this point in his second term, is keen to reach out and build support rather than undermine it, as he did so often in his first four years.

“The mission defines the coalition”, as he and his defence secretary, Donald Rumsfeld, have said so often, and at this point America's more diffuse, less warlike mission makes the EU useful rather than a nuisance. So much so that this week Mr Bush became in effect the first American president ever publicly to take the EU seriously as a set of institutions, rather than just an idea (see article).

The EU, however, has not done quite so well at establishing its own claim to seriousness. On Ukraine, for sure, its firm support for democratic procedures and implicit offer of eventual membership played an important part in December's “orange revolution” there, and impressed the White House. But in the past few weeks, its effort to achieve unity on foreign policy has sounded more like cacophony than harmony. Germany's chancellor, Gerhard Schröder, shocked even his closest European ally, France, when to a Munich defence conference he declared that NATO was no longer the main forum for transatlantic discourse: the French may not disagree, but they hadn't been consulted. And on the subject of China and the arms embargo, the contradictions have been debilitating. While Javier Solana, the EU's foreign-policy co-ordinator, has been trotting out the official line that lifting the embargo is purely “symbolic” and that no one actually plans to sell more arms, France's defence minister, Michéle Alliot-Marie, said brazenly that France certainly would sell more arms and that to do so would be a good thing, for it would slow down China's own development of military technology.

Probably, as in any group of 25 members, cacophony will always be a feature of European affairs. But a vital objective for the EU must be to keep the cacophony confined to less important issues, and to achieve some sort of harmony on bigger matters. In a way, on the Chinese embargo, the EU has achieved the miracle of both: it has been cacophonous about the justification and the likely consequences, but so far harmonious about the actual plan to remove the embargo. What it has failed to do is to convince its allies that it has thought seriously about the issue of security in East Asia.

Old China, New China

Achieving a consistent foreign policy towards China is famously difficult. This week, America was simultaneously grateful for Chinese help in persuading North Korea to return (well, perhaps return) to six-party talks about its nuclear programme, and angry (especially in Congress) at the Europeans for wanting to sell China more arms. Japan is angry too (see article) but simultaneously glad that China is now its biggest trading partner and quiet about the question of human rights. China too is inconsistent: it purports to be hugely insulted by the arms embargo, yet also considers its relationship with America to be passing through one of its better phases.

What, then, can you do about this undemocratic giant, whose economic weight in the world is rising fast but which continues to make periodic military threats towards its “renegade province” of Taiwan, a country of 23m people that is independent de facto but not de jure? After the Tiananmen massacre of 1989, the EU, along with Australia and the United States, imposed as one of its sanctions an embargo on arms sales. Australia lifted its ban in 1992. Neither the American nor the European embargoes mean that no arms are sold to China at all: both regions' defence industries do sell some fairly low-tech arms to China (see article). As the Europeans say, the embargo places a rising superpower in peculiar company: the only other two countries subject to the same controls are Myanmar and Zimbabwe.

Those are the arguments for dispensing with the embargo. Doing so will no doubt bring EU members commercial benefits: some big contracts, perhaps, and probably an increased flow of Chinese tourists. Whether it brings an increase in arms sales will depend on how watertight is the code of conduct the EU promises to draw up to guide its national governments, and whether those governments all enforce it. Despite the French defence minister's comments, no one can be sure what will be sold in future. The fear, though, is that China will in time be able to buy high-tech,

often dual-use, equipment now barred to it, as well as gaining more leverage in negotiating with other suppliers—notably Russia—as a result of having better access to European ones.

Such opportunities will not transform the strategic situation in East Asia overnight. Nor will they put Taiwan under imminent threat. But they do risk achieving both of those things during the next decade, a period during which the political direction of China is necessarily unknown. It is true that the China of 2005 is different in many ways from the China of 1989: there is more freedom, and the economy is a lot bigger. But human rights have not greatly improved, and China has been building up its military strength, notably along the Taiwan Strait. The China of 2010 or 2015 may prove to be a freer and more democratic place. Or it may prove a more belligerent one, armed with more sophisticated weaponry. We know what Old China was like; not even the Europeans know what New China will be like.

Such a risk is being taken in a way even the most junior Chinese diplomat must think bizarre: the Europeans are making a political concession, but demanding nothing equivalent in return. What they are achieving, seemingly deliberately, is considerable annoyance among their allies. It is as if the Europeans have chosen to copy Mr Bush, rather than convert him.

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Lebanon

Time for Syria to go

Feb 24th 2005
From The Economist print edition

But it is also necessary to disarm Hizbullah, the Iranian-inspired "Party of God"

AP

Get article background

GEORGE BUSH'S claim that the example of Iraq could spread democracy throughout the Arab world is frequently mocked, not least by the Arabs. In truth, nobody can foretell the long-term consequences. Following last week's murder by assassins unknown of Rafik Hariri, Lebanon's former prime minister, most Lebanese blame Syria, which has occupied their country since intervening in its civil war in 1976. Many Lebanese have launched what they are calling a "peaceful *intifada*" to push the Syrians out. Walid Jumblatt, the leader of the country's Druze, says that Iraq is part of the inspiration for this. "I was cynical about Iraq," he told the *Washington Post*. "But when I saw the Iraqi people voting three weeks ago, 8m of them, it was the start of a new Arab world...The Syrian people, the Egyptian people, all say that something is changing. The Berlin Wall has fallen. We can see it."

Can Syria really be eased out of Lebanon? Perhaps. On top of the pressure from the Lebanese, outside pressure on Syria's President Bashir Assad is intensifying. America has imposed some mild sanctions—and threatened more—under its Syria Accountability and Lebanese Sovereignty Restoration Act. Ending the Syrian occupation is one of the few regional policies on which America and France, the former colonial power, have been able to co-operate. They were the prime movers last September of UN Security Council Resolution 1559, which orders Syria out. Mr Bush and President Jacques Chirac, a friend of the murdered Mr Hariri, repeated that call this week.

The restoration of Lebanese sovereignty would be a wonderful thing. However, Resolution 1559 contains a second, less remarked-upon demand. This calls for the disarming of all Lebanon's private militias, only one of which—Hizbullah, the Iranian-inspired "Party of God"—is in fact still

under arms. A Syrian withdrawal from Lebanon that left Hizbullah with its weapons could be dangerous in the extreme.

Hizbullah is hard to define. To Americans it is a terrorist group, one that killed more than 240 marines in Beirut in 1983 and kept western hostages manacled for years in Beirut cellars. Israel accuses it of having killed 95 people in a Jewish centre in Argentina in 1994. To Lebanese it is the resourceful resistance group that drove the Israelis out of their self-declared Lebanese “security zone” in 1999. It is also a political party, with members in parliament. Its role in Lebanon's “fragile balance” is one reason France's foreign minister, Michel Barnier, gives for having refused American and Israeli pleas to add Hizbullah to Europe's list of terrorist organisations.

But what's in a name? Whatever you call it, Hizbullah should be made to disarm. In all countries, but especially those that have been through civil wars, allowing political parties to maintain private armies is a bad way to maintain a “fragile balance”. More often—as in the case of Sinn Fein and the Irish Republican Army—it is a recipe for continuing conflict. Nor does Hizbullah now require weapons to “resist” Israel. The Israelis withdrew their forces from all Lebanese territory five years ago, in very belated accordance with UN Security Council Resolution 425. On the contrary, Hizbullah is permitted by Lebanon's Syrian occupiers to keep its weapons for one reason only: so that it can continue fighting Israel.

Israel delenda est

Hizbullah makes no secret of this. In an interview with *The Economist*, its deputy secretary-general, Sheikh Naim Kassem, explained that the establishment of the Israeli “entity” was a mistake that could not be allowed to continue, and that although “Jewish Palestinians” might remain in a liberated Palestine, those who came from abroad would have to return to their homelands. Destroying Israel is also the official policy of Iran, Hizbullah's mentor, which with Syrian connivance has supplied the group with thousands of rockets and missiles, some of them capable of reaching deep inside Israel. Although Resolution 1559 calls for Lebanese forces to control all of Lebanon, Hizbullah runs the border area, from where it mounts occasional well-planned attacks on Israeli positions. Lately it has also played a growing part in arming and directing the Palestinian *intifada*—so much so that even Yasser Arafat had begun to complain about its interference.

For Hizbullah and its sponsors in Tehran the idea of disarming it is almost unthinkable. War against the Zionist entity is part of its founding vocation. Syria, too, finds it useful to have a proxy that can be used to keep Lebanon's border with Israel on a hair-trigger. But these are yesterday's ideas. They deserve no place in a Middle East that may at last be moving towards democracy and a reconciliation in Palestine. The disarming of Hizbullah—or if necessary its incorporation into the official army of a democratic Lebanon, free from foreign occupiers—is an aim all the region's well-wishers ought to support.

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Equal rights in America's armed forces

Gay warriors

Feb 24th 2005
From The Economist print edition

America should learn from its allies and let gays serve openly

Getty Images

IN THE armies of ancient Greece, homosexuals were prized as soldiers, though sent to fight in separate units. In Britain's armed forces no such distinction is made. Gays may serve openly, without fear of prejudice—and they seem to fight and fit in perfectly well when they do (see article). The same happens in most NATO countries. But in America, self-declared gay warriors are not allowed. As a piece of discrimination of no practical benefit, this is wrong.

Bill Clinton tried to introduce what might be called “open service” in 1993, but ended up bringing forth a backlash both against the idea and his own administration. Since then, by law, America's policy has been “don't ask, don't tell”—its troops neither should be asked nor need volunteer information about their sexuality. That has not stopped plenty of people being ousted and outed. Since 1993, more than 10,000 gay Americans have been booted back onto Civvy Street. Not a large number, perhaps, when America has nearly 2.5m people in uniform. But many of those ousted possessed valuable skills: between 1998 and 2004, 20 relatively rare Arabic speakers and six Farsi speakers were forcibly discharged after they were found to be gay.

So why ban self-confessed gay GIs? Three reasons are usually offered. First, the Pentagon fears that gay soldiers would undermine teamwork and morale. On the battlefield, soldiers do not fight for King and Country; they fight for each other—for love of their “band of brothers”, as Shakespeare put it. Some fear that soldiers would be wary of loving their gay comrades in this way. Second, allowing gays to serve openly could actually be bad for recruitment: the extra homosexuals would be outnumbered by the homophobic Americans thus deterred. The third reason is more abstract. Successful armies reflect the mores of the societies from which they are drawn, and America, it is said, is unwilling to allow its heroes to be gay.

Queer eye for the military guy

None of these complaints really stands up. Begin with the fact that there are already plenty of gays in America's armed forces. One recent estimate put their number at 65,000. Anecdotal evidence suggests lesbians may be more prevalent than is normal, and gay men slightly less prevalent. Many of these people will be “out”, at least to their close comrades—after all, military banter is excruciatingly personal.

According to a recent poll of enlisted men, more than half thought gays should be allowed in the armed forces. In the current time of overstretch, even the older, more conservative, officer class seems to be changing heart. The number of gay discharges rose steadily till 2001, when America went to war in Afghanistan; since then the annual figure has halved. As for the idea that the ban reflects American mores, polls suggest that at least 64% of Americans would allow gay soldiers.

Congress should look at the British example. In 2000, when the queen's army jumped out of its closet (so to speak), many senior officers were aghast. Their arguments then were similar to American fears now: sooner or later, showers and bars of soap were mentioned. Four years later, recruitment has not suffered; most new recruits are unfazed about meeting gay comrades. And with gays subject to the same rules governing appropriate behaviour as heterosexuals, the showers need hold no fears for happily-married men. Come on, Rummy, what are you afraid of?

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Free speech and academia

Summerstime, and the living ain't easy

Feb 24th 2005
From The Economist print edition

What is happening at Harvard would be funny were it not outrageous

Rex

IT IS tempting to write off recent events at Harvard University as another harmless example of the dotty cult of political correctness. After all, since America has the best universities in the world (albeit largely by default: see article), the odd faculty tantrum seems a small price to pay. Alas, Harvard's problem is far more serious than that.

This week, the faculty met to discuss the university's president, Larry Summers; there were calls for him to resign and he may still face a no-confidence motion at the next meeting. For his part, the normally pugnacious former treasury secretary promised to "temper my words and actions in ways that convey respect and help us work together more harmoniously."

The prompt for this is a speech Mr Summers made in January, in which he postulated that the shortage of female science professors might in part be due to innate differences between the sexes. But the current fracas really began three years ago, when Harvard appointed its erstwhile economics professor to head the place. Rather than merely raising money for an already rich institution, Mr Summers made it clear that he wanted to improve standards at the university—not easy when most professors have tenure (ie, jobs for life). First, he criticised "grade inflation", the process of awarding pupils ever higher marks (half the grades given to undergraduates were As). Then he told Cornel West, a black professor at the African-American studies department who had become a media star, that he needed to do more academic work. Mr West took his movie-and-rap career off to Princeton.

If these are the sort of "words and actions" that Mr Summers will now temper, then Harvard is already the poorer for it. But now consider his "sexist" January speech. Note first that this was

given in a private capacity to an economics conference, and that he had been briefed to ask provocative questions. That would not excuse Mr Summers being gratuitously offensive about women. But was he? A biologist who stormed out said she was so offended that she could hardly breathe.

Reading the transcript, which is available here and which Mr Summers should have released sooner, one begins to wonder what kind of examination of female scientists would not offend some people. Mr Summers does not blame anything on anything; instead, he advances—with plenty of caveats and an uncharacteristic dose of humility—three hypotheses. First, that discrimination and social pressure might hold women back; second, that 80-hour-a-week science careers might be harder for women to take on; and third, that the outcome might be related to findings that men tend to be over-represented at the top of science-aptitude tests.

Mr Summers said that out of the three explanations offered, he thought discrimination was probably the least important. This last judgment, even allowing for Mr Summers's protestations about his lack of expertise, was gauche: after all, in his day job the provocateur has to help decide whom the faculty should hire, and the number of female scientists has gone down. Against that, there is no evidence that Harvard's president has ever acted in a discriminatory manner. And the firestorm is not about one judgment, but about his right to raise the issue of innate differences at all.

Here all the evidence is with Mr Summers. He cited various respectable academic sources; and even beyond those there is a scientific debate about the difference between male and female brains. Boys, for instance, are four times more likely to be autistic than girls. It was a legitimate subject to broach.

In the end, the debate about Mr Summers comes down to a simple choice. On one side sit short-term expediency and censorship; on the other, freedom of speech and long-term effectiveness. If Mr Summers's foes manage to sack or gag him, they may have a happier university in the short term. But they will have snuffed out an invigorating source of criticism in a cosy world. And they will also have endangered the fundamental right of an academic to ask questions. This should be enough to make liberal opinion everywhere start gasping for air.

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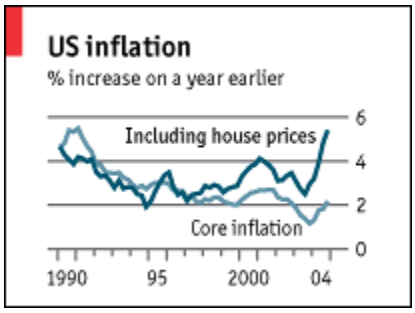
Inflation targets

Monetary conundrums

Feb 24th 2005
From The Economist print edition

America's monetary policy is off target



"YOU are not here to tell me what to do. You are here to tell me why I have done what I have already decided to do," Montagu Norman, the Bank of England's longest-serving governor (1920-44), is reputed to have once told his economic adviser. Today, thankfully, central banks aim to be more transparent in their decision making, as well as more rational. But achieving either of these things is not always easy. With the most laudable of intentions, the Federal Reserve, America's central bank, may be about to take a step that could backfire.

Unlike the Fed, many other central banks have long declared explicit inflation targets and then set interest rates to try to meet these. Some economists have argued that the Fed should do the same. With Alan Greenspan, the Fed's much-respected chairman, due to retire next year—after a mere 18 years in the job—some Fed officials want to adopt a target, presumably to maintain the central bank's credibility in the scary new post-Greenspan era. The Fed discussed such a target at its February meeting, according to minutes published this week. This sounds encouraging. However, the Fed is considering the idea just when some other central banks are beginning to question whether strict inflation targeting really works.

At present central banks focus almost exclusively on consumer-price indices. On this measure Mr Greenspan can boast that inflation remains under control. But some central bankers now argue that the prices of assets, such as houses and shares, should also somehow be taken into account. A broad price index for America which includes house prices is currently running at 5.5%, its fastest pace since 1982 (see article). Inflation has simply taken a different form.

Should central banks also try to curb increases in such asset prices? Mr Greenspan continues to insist that monetary policy should not be used to prick asset-price bubbles. Identifying bubbles is difficult, except in retrospect, he says, and interest rates are a blunt weapon: an increase big enough to halt rising prices could trigger a recession. It is better, he says, to wait for a housing or stockmarket bubble to burst and then to cushion the economy by cutting interest rates—as he did in 2001-02.

And yet the risk is not just that asset prices can go swiftly into reverse. As with traditional inflation, surging asset prices also distort price signals and so can cause a misallocation of resources—encouraging too little saving, for example, or too much investment in housing. Surging house prices may therefore argue for higher interest rates than conventional inflation would demand. In other words, strict inflation targeting—the fad of the 1990s—is too crude.

Oceans apart

In the past, asset prices were less of an issue. House prices took off at the same time as inflation, so both required the same monetary medicine. But in recent years inflation has remained modest, while share and house prices have surged. Thanks to low inflation, central banks have held real interest rates at historically low levels. But the extra liquidity created by low interest rates is now more likely to spill over into the prices of homes or excess credit-growth than into consumer prices. Inflation used to be described as too much money chasing too few goods. In a world where the supply of goods is more elastic—either because of technological advances or new sources of supply such as China—inflation becomes too much money chasing too few assets.

Some central bankers in Britain, continental Europe, Australia and New Zealand have said publicly that monetary policy needs to take more account of asset prices and that sometimes interest rates may need to rise by more than if the sole objective were to keep consumer-price inflation within target.

In a recent article, Otmar Issing, the chief economist of the European Central Bank (ECB), threw down the gauntlet to the Fed. He argued that it is hard, but not impossible, to identify when asset prices are overshooting; there are benchmarks against which valuations can be judged. If prices look frothy, central banks should signal their concern. And they should certainly avoid contributing to “unsustainable collective euphoria”. Central banks should also look out for the surge in money and credit which often accompanies a bubble.

In congressional testimony last week, Mr. Greenspan did not once mention the words “money” or “liquidity”. Yet America is overflowing with money. Partly as a result, global liquidity last year grew at one of the fastest rates on record (see article). In contrast to the Fed, the ECB has been warning about excessive growth in liquidity in the euro area and the risk of unsustainable increases in house prices. This is how central banks should talk: threatening to take away the punch bowl just as the party gets going, rather than offering to serve an even stronger brew.

During the past century, every monetary rule has eventually broken down: the gold standard, the Bretton Woods system of fixed exchange rates, and monetary targeting. Now it seems that strict inflation targeting may not be a panacea either. It would be foolish for the Fed to sign up for crude inflation targeting just as it goes out of fashion.

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Democracy in Africa

Good and bad neighbours

Feb 24th 2005
From The Economist print edition

West African leaders speak up for democracy; southern African leaders stay mute

AP

Get article background

INCOME per head in Zimbabwe is about half what it was in 1980, the year Robert Mugabe came to power. But this statistic gives a misleadingly rosy impression of what a quarter-century of innumerate despotism does to a country. Zimbabweans have not only grown poorer under Mr Mugabe; they are also hungrier, more fearful and far less likely to reach the age of 40. There are no reliable opinion polls in Zimbabwe, not least because suspected dissidents are liable to see their houses torched. But it is fair to assume that most Zimbabweans would love to kick out their tyrant and the gaggle of gangsters who make up the country's ruling party, ZANU-PF.

At a parliamentary election on March 31st, Zimbabwean voters have, in theory, a chance to express their frustrations. In practice, their voices are unlikely to be heard. Mr Mugabe is wily enough to know he is unpopular, which is why he took the precaution of rigging the last parliamentary election, five years ago, as well as the presidential ballot of 2002. All the signs are that next month's vote will be even more systematically rigged. Independent media outlets have been shut down, most poll monitors have been barred from the country and opposition candidates have been violently prevented from campaigning. The voters' roll (parts of which are kept secret) is packed with the names of dead or fictitious people who, on past form, will probably vote for ZANU. Flesh-and-blood voters will remember that villages that voted for the opposition last time were deliberately deprived of food aid. And so on.

Democracy might stand a chance in Zimbabwe if its neighbours applied a little pressure on Mr Mugabe to respect the will of his people. But most southern African governments seem inclined to side with the oppressor. South Africa's president, Thabo Mbeki, whose envoys endorsed the past

two electoral travesties in Zimbabwe, seems determined to see no evil this time, either (see article). Benjamin Mkapa, Tanzania's president, last week dismissed the idea that Zimbabwe's problems might have something to do with bad governance. Instead he blamed the opposition, noting with disgust that its leaders were seeking to get into the presidential mansion “by hook or by crook”. Perish the thought.

The contrast with recent events in West Africa is revealing. Earlier this month, following the death of the long-serving ruler of Togo, Gnassingbé Eyadéma, the Togolese army mounted a coup. It installed Mr Eyadéma's son, Faure Gnassingbé, as president, and let it be known that he would hold that post at least until 2008. Twenty years ago, Togo's neighbours would merely have shrugged. But this time, they clubbed together and insisted that the putsch would not stand.

West Africa's admirable intolerance for tyranny

The Economic Community of West African States, the main regional grouping, suspended Togo's membership, imposed an arms embargo and barred the country's leaders from travelling in the region. Blunt condemnation of Togo's coup by heavyweights such as Nigeria's president, Olusegun Obasanjo, appears to have had an effect. Mr Gnassingbé said he would call an election within 60 days, and Togo's parliament reversed the hasty changes it had made to the constitution that had retroactively “legalised” the putsch. That is still not good enough; Mr Gnassingbé should stand down immediately. But it seems that intervention by Togo's neighbours has increased the chance that voters there will be able to pick a government they want. Nothing of the sort could be said of Zimbabwe and its neighbours.

Apologists for southern Africa's deferential approach to Mr Mugabe will protest that Zimbabwe and Togo are different. The latter has suffered a blatant coup; the former has seen merely a series of elections with, ahem, irregularities. Loud criticism of Mr Mugabe, says Mr Mbeki, will make it impossible to influence him for the good. The flaw in this argument is that after several years, Mr Mbeki's “quiet diplomacy” has achieved nothing. One cannot shake the suspicion that southern Africa's club of veterans of the struggle against white colonialism, who still rule the most significant countries south of Congo, just don't want to see their comrades voted out of office. Such an attitude bodes ill for the whole region.

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Letters

Feb 24th 2005
From Economist.com

The Economist, 25 St James's Street, London SW1A 1HG
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Age concern

SIR – You say that, by themselves, private accounts will not cure the Social Security deficit ("How to mend Social Security", February 12th). In truth, they have zero relationship to the deficit. The only deficit-curing measure, at least as leaked so far, is a very large benefit cut. Over the forecast period, the basic benefit will fall from around a third of the median wage to less than a fifth. Financial advisers universally stipulate the need to create a core nest-egg first before investing in higher yields; a fifth of the median wage does not meet that criterion.

The notion that a cut in benefit can be papered over by increasing one's risk profile is the reason why most people are opposed to privatising Social Security. Spending on the elderly will rise substantially over the next 50 years, so a responsible government should assemble surpluses. As you have pointed out, it is the Bush tax cuts, which are skewed to the wealthiest taxpayers, that have caused America's sudden swing to deficits. Instead of reducing provision for the vulnerable, the answer is to roll back the tax cuts, or let them expire.

Charles Morris
New York

SIR – It is debatable, from an investment point of view, if "giving people ownership of their savings" really is a good thing. A typical individual lacks the investment expertise and has an aversion to risk. For example, one-third of all participants in American defined-contribution plans put the majority of their money into a savings vehicle, such as a money market or stable value fund, rather than an investment vehicle. Yet American stocks have outperformed Treasury bills by more than 100 times over the past 75 years. The efforts of defined-contribution plan sponsors to educate people on the correct investment decisions are foundering even now.

John Webster
Greenwich, Connecticut

SIR – You claim that "it is wrong that...so many retirees should rely so heavily on the state". In principle, there is nothing wrong with relying on the state, especially for the funding of systems that address nationwide concerns; nobody, for example, worries that so many people rely entirely on the state for defence.

Jonathan Kaplan
Corvallis, Oregon

SIR – What happens if a husband or wife, who dies before retiring, has a will that leaves their

private investment account to someone other than his or her spouse?

David Austin
Austin, Texas

A time for peace

SIR – After nearly 40 years of military occupation and the dismal experience of Oslo and Camp David, procrastination is not a productive option if the current Israeli-Palestinian ceasefire is to hold ("Together to the promised land", February 12th). The final-status issues of borders, Jerusalem and refugees have been debated *ad infinitum*. For Israel, it is the right to exist in peace and security within its 1967 borders that can be rationalised through swaps of territory. For the Palestinian people, it is their freedom and liberty in a viable sovereign state, having East Jerusalem as its capital, and becoming the home of most Palestinian refugees. Failing this accommodation, the present window of opportunity will quickly fade away. As in the past, an open-ended negotiation is bound to become a ticking bomb that ends in disaster like previous well-meaning attempts. A determined intervention by the Americans is required to compel the two parties to make the hard decisions that are needed. The peacemakers should then define, at the outset of talks, their negotiating goals, tell their people and set a 12-18-month timeframe to implement them.

SAMIH SHERIF
Montreux, Switzerland

Insurgents in Iraq

SIR – Weshah Razzak states that if the US army were to be replaced by UN troops he "would not be surprised if the insurgents then dropped their weapons" (Letters, February 12th). Would these be the same insurgents who bombed the UN headquarters in Iraq on August 19th 2003?

Robert Saunders
Balcombe, West Sussex

Drug effects

SIR – The White House has consistently overstated the success of the coca-spraying programme in Colombia ("Battles won, a war still lost", February 12th). Farmers and traffickers have largely neutralised the effects of spraying through smart countermeasures such as planting coca bushes in denser and less visible plots and cultivating new strains of coca that are resistant to the herbicide glyphosate. Producers have also increased efficiencies in the conversion of coca leaf into refined cocaine. In reality, spraying has damaged the fumigated areas, but smarter planting (and the expanding international demand for the drug) is stimulating production.

Moreover, spraying increases the number of displaced peasants, adding to the pool of an available recruiting force for FARC guerrillas in Colombia. Current policies produce good short-term results equal to body counts in a war but continue to fail in the medium and long run.

Rensselaer Lee
McLean, Virginia
Francisco Thoumi
Bogotá

SIR – You note that President Uribe opposed a law requiring paramilitaries to forfeit illegally

acquired assets and confess crimes ("Next steps in Colombia", February 12th). This was true, until last week. Under international pressure, Mr Uribe has reluctantly proposed a bill that includes these requirements. But the bill has no teeth. Paramilitaries can keep very generous benefits (including substantial sentence reductions) even if they lie in confessions or withhold land they took by force. Until the government establishes meaningful mechanisms to dismantle paramilitary structures, their criminal acts and vicious territorial control are likely to continue.

José Miguel Vivanco
Human Rights Watch
Washington, DC

Trusting Nepal's king

SIR – The world should understand that King Gyanendra staged a coup primarily to solve the Maoist problem ("Feudal follies", February 5th). It is time to give Nepali citizens what they deserve; an end to the Maoist insurgency and the rescue of the nation from corrupt politicians. Most Nepalis, at home and abroad, trust the king much more than they trust Nepal's phoney political parties, who want nothing more than a few months in office to hoard as much wealth as possible. The royal family are a part of Nepali culture and with no monarchy Nepal would not be the same.

Sonia Miyahara
Boston

Red state Deaniac

SIR – Howard Dean has a quality that is admired in Red states: backbone (Lexington, February 12th). The Democrats lost the election by not choosing someone with genuine conviction. That hurt real bad; like cheating, losing and then getting found out for cheating. By choosing Mr Dean now, Democrats have gone for conviction and righteousness—qualities that another former governor from a much larger and hotter state appreciates.

Erik Kubec
Lafayette, Colorado

ONLINE ARTICLES

The following correspondence refers to articles published only online

Buttonwood on emerging markets

SIR - Please continue to warn investors of the dangers of emerging markets with their limited returns and outsized risk typically supported by aggregated data, lumping the bad with the good ("Cinderella markets", Economist.com, February 15th). This allows us more naive investors to continue to reap the four- to eight-fold rewards from investing in Chinese coal and power companies, Thai petrochemical and infrastructure stocks and telcos in the Philippines (just to name a few).

Robert Eberley

SIR - There is some doubt in my mind about measuring corporations using dividends as a factor.

Corporations in developing economies generally need to re-invest earnings rather than distribute dividends. Thus, measurement on a short-term basis may result in a different assessment than one taken using a longer-term view

Robert Longstaff

SIR - You will note that the table in your Buttonwood column on emerging-market shares contains politically stable and egalitarian countries as well as dictatorships and basket cases. Perhaps another variable to consider is the composition of GDP. Russian or Nigerian oil (mostly state-controlled) are hardly in the same category for investors as the more diversified economies of Ireland, New Zealand or Britain. Shares in the risky but fast economies perform badly because they have higher risk of expropriation. Shares in the more stable, fast-growing economies will have lower risk and perhaps give a better return.

Beware, as usual, the survivor bias that plagues very long time series. The slowest-growing economies over the past 100 years are omitted from the dataset because they were so badly managed that no one bothered to keep records.

David Zetland

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Arab satellite television

The world through their eyes

Feb 24th 2005 | CAIRO, LAAYOUNE, QATAR AND RIYADH
From The Economist print edition

Reuters

With 150 channels to choose from, Arabs are arguing, comparing and questioning as never before. Will this burst of freer speech bring democracy any closer?

THE dusty little town of Laayoune lies at the extreme western end of the Sahara desert, or about as far as you can get from Arabia and still be in an Arabic-speaking land. Before this century its only links to the Arab east were shortwave radio, old newspapers, the occasional Egyptian movie, and the talk of pilgrims returning from the *haj*. But now the clamour of places such as Beirut and Baghdad has come to Laayoune's doorstep: indeed, right into its living rooms, 24 hours a day.

Across the Arab world, the impact of the satellite dish has been profound. It has not merely broken the isolation of Laayoune and countless other towns and villages (roads and telephones can do that). It has not simply exposed their people to extremes of behaviour, from stark pornography to fervid fundamentalism (the internet can do that). Satellite television has created a sense of belonging to, and participation in, a kind of virtual Arab metropolis. It has begun to make real a dream that 50 years of politicians' speeches and gestures have failed to achieve: Arab unity.

That dream remains, in fact, a distant prospect. Despite lofty talk, the ties that bind Arabs remain largely ones of sentiment and memory, as well as the broadly shared Muslim faith and Arabic language. Yet all these common things are strengthened by satellite television.

Arabic is a diverse, richly layered language. Natives of Laayoune still speak their local dialect. But now that they hear a range of usages every day—from the classical speech of literature to its many regional derivatives—these no longer strike them as over-formal or exotic. The written

language taught in schools, known as modern standard Arabic, used to be forgotten in daily affairs. Now it has come alive as a real spoken tongue, accessible not just to the educated few, but to everyone.

For religious instruction Arabs are as likely, now, to tune directly to Mecca as to seek opinions from the neighbourhood mosque. They may follow one of two private Saudi-owned channels that propagate the kingdom's arid take on the faith. Viewers bored by bearded sheikhs may turn instead to TV preachers such as Egypt's Amr Khaled, whose similarly conservative message comes packaged in a snappy blazer and jeans.

Such satellite fare has speeded the homogenisation of Muslim religious practice. In January, for example, Saudi religious authorities abruptly announced, a day earlier than expected, the start of the Muslim lunar month of Dhu'l Hijja. During four days of this month pilgrims perform the *haj* rituals at Mecca, while fellow Muslims celebrate the Eid holiday. In the past, other governments could have ignored the Saudi call, citing reliance on their own astronomers. But the *haj* is now broadcast live. Despite the global chaos as millions scrambled to change their Eid plans, every Muslim country except Indonesia felt obliged to follow the Saudi line, for the simple reason that their people could see their co-religionists gathered at Mecca's Mount of Mercy.

Local issues still inflame passions in places like Laayoune. But so do the travails of Iraqis and Palestinians, 3,000 miles away. Saturation coverage has made provincial Arabs as keenly aware of the issues and personalities involved as the café pundits of Cairo and Damascus. And when the politically minded of the Arab periphery think of making noise about their own concerns, their preferred forum is now not the local press. It is chat shows and news bulletins beamed from distant Qatar and Dubai—home, respectively, to the Arab world's two most popular news channels, al-Jazeera and al-Arabiya.

Al-Jazeera, by far the best known among some 150 Arab satellite channels, boasts 40m-50m regular followers. The entertainment channel MBC has even more. When their smaller rival, Beirut-based Future TV, ran a song contest last summer, 15m viewers voted on the outcome: more Arabs than have ever cast ballots in a free election.

Reuters

On his favourite channel

Critical voices

The winner of the song contest, a Libyan student of dentistry, was instantly, if briefly, the most

famous Libyan in the world after the country's leader, Colonel Muammar Qaddafi. This underscores another reason for the potency of Arab satellite TV. Until a decade ago, rulers such as Mr Qaddafi were assured of captive audiences. The only critical voices were likely to come from Bush House in London, via the BBC's Arabic Service, or from the French government's racier Radio Monte Carlo, or from the propaganda broadcasts of neighbouring, hostile regimes.

Nearly all Arab states maintain terrestrial broadcasting monopolies (Iraq and Lebanon being the exceptions). By and large, however, the Arab public has exercised technology's gift of choice to leave the dowdy old state channels in the lurch. Sniffing this wind, many of the region's ubiquitous ministries of information have launched their own satellite channels. The Egyptian government's mammoth media organ, for example, boasts no fewer than 25. Satellite competition has also persuaded state broadcasters to offer flashier graphics, more field reporting and coverage of leaders that is less adulatory.

None of this, however, can contain the impact on Arab media consumers of an ever-widening range of choice. It is one thing to learn of different, perhaps attractive, lifestyles in foreign cultures by way of Hollywood movies; it is quite another to see them being practised next door. Even the most purdahed of Saudi women are liable to observe that driving cars, forbidden to them, is quite normal for their sisters not only in distant, decadent America, but also in nearby Kuwait or Dubai. Syrians or Egyptians can see that real elections take place not just in rich Christian Europe, but in neighbouring Palestine and Iraq. Such innovations are no longer perhaps just for people “like them”, but for people “like us”.

Jazeera Storm

It is not just inadvertent imagery that can induce a certain restlessness. The most popular programmes on Arab satellite TV happen to be those whose interest in posing questions, and stimulating appetites for change, is pretty frank. The pioneer, and still the leader, in this kind of programming is al-Jazeera.

This current-events channel, based in Qatar, began broadcasting in 1996, when it luckily picked up much of the London-trained manpower from a stillborn venture by the BBC into Arab satellite TV. Generously funded by Qatar's liberal-minded emir, and given a long leash, al-Jazeera burst on to the scene with a shockingly new approach. It was slick and fast-paced, serious and playfully critical. It presented contrasting, often clashing opinions, yet from a pan-Arab viewpoint. It dug into buried corners of the Arab past. And it had reporting from around the globe.

Particularly appealing to the Arab public was a programme called “The Opposite Direction”, a 90-minute showdown between guest opponents, where viewers were encouraged to call and join in. A recent trailer for the programme posed typically blunt questions: “Why is it that when an Arab leader dies, people moan and wail as if the nation can't live without him? What have these leaders ever achieved for us? Aren't they symbols of corruption and backwardness and tyranny?”

The loud airing of such talk has had a cathartic effect not just on Arab audiences, but on the profession of journalism. “The fact is that before us the Arab media were controlled by political and security apparatuses, which dictated what went in,” says Jihad Ballout, the channel's spokesman. “Al-Jazeera transgressed all that. People suddenly had access to all kinds of information that had been suppressed for 40 years. This forced regimes to grudgingly allow a bigger margin of freedom.” His view is widely shared.

Inevitably, al-Jazeera came under attack. When its reporters broke an Arab taboo and interviewed Israeli officials on camera, some said the channel was a Zionist conspiracy. Others whispered that it was controlled by the Muslim Brotherhood, pointing to the prominence in its religious

programming of Yusuf Qaradawi, an Egyptian cleric with past links to the group. Numerous governments, alarmed that al-Jazeera granted airtime to their opponents, clamped restrictions on its reporters and warned advertisers to spend their money elsewhere.

Al-Jazeera's popularity grew nonetheless. A first big boost came with the outbreak of the Palestinian *intifada* in October 2000. Al-Jazeera's live, graphic reporting of the bloodshed riveted Arab audiences, prompting a region-wide groundswell of sympathy for the Palestinians. A year later, its lucky decision to open a bureau in Kabul gave al-Jazeera an exclusive window on to the launch of America's own war on terror. Being Arab and Muslim, its reporters gained privileged access to the losing side on the Afghan front, and it became the outlet of choice for Osama bin Laden in his efforts to rally Muslims to his cause.

Tilted against America

Soon after, al-Jazeera raised American hackles further with reporting on Iraq that was similarly determined to give equal time to both sides of the conflict. American officials who had previously praised the channel's objectivity—a White House aide once described it as “a beacon of light”—now accused it of being a mouthpiece for their enemies. Al-Jazeera's slant could be seen not so much in its highly professional news reporting as in the editing and framing of stories, the angling of interviewers' questions, and the choice of sound and imagery for the dramatic plug spots that fill time between programmes. But this kind of tilt was, of course, just as evident in the enthusiastic coverage of many American networks.

When American warplanes (accidentally, or not?) bombed al-Jazeera's Kabul office and later its bureau in Baghdad, much of the Arab audience assumed this to be a direct expression of American ire. These and subsequent troubles—including the banning of al-Jazeera by Iraq's interim government and the recent jailing, in Spain, of a star reporter on charges of aiding terrorists—only added to the channel's mystique. It was seen as the underdog, a besieged voice of truth.

Perhaps inevitably, this perception infects al-Jazeera's style of reporting. Its coverage of Iraq has often been emotional, and has reflected a bias towards the Sunni, Arab nationalist view that sees armed resistance to occupation as noble and legitimate. Yet, overall, America's declining image among Arabs has owed less to al-Jazeera than to unpopular American policies, and to Washington's ineptness at selling them. Captain Josh Rushing, who was a military spokesman during the invasion of Iraq, says now that his commanders should have realised that the best way to reach Arab audiences was via al-Jazeera. “They should have identified this as mission critical,” he told an interviewer from America's partly state-funded PBS network last year. Amazingly, the American government still has no permanent, camera-trained spokesman capable of delivering its views in polished Arabic.

Surveys conducted by Shibley Telhami of Washington's Brookings Institution have found little difference in the attitudes towards America—or indeed towards most issues—between Arabs who watch al-Jazeera and those who don't. He has even found that, in some Arab countries, viewers of America's CNN were more anti-American than viewers of al-Jazeera. The fact is that Arab audiences often harbour what look, to westerners, like rather extreme views. According to Mr Telhami, for example, al-Jazeera was the most popular source of news in Jordan for coverage of the *intifada* until 2003. But when it shifted its news emphasis to Iraq, it lost many of its Jordanian viewers (most of whom are Palestinian) to al-Manar, the bombastic satellite channel run by the radical Shia militia in Lebanon, Hizbullah.

Indeed, al-Jazeera has often exercised a moderating effect. Mr Qaradawi, its star preacher, recently excoriated a viewer who called in to his show, “Sharia and Life”, to denounce democracy and freedom as “infidel” concepts. The channel refuses to air the snuff videos produced by Iraqi

kidnappers. Yet a recent (wholly unscientific) electronic poll it conducted found that a shocking 80% of respondents thought the killing of western hostages was legitimate. Perhaps, suggests Mr Ballout, this is because al-Jazeera tends to attract the kind of people who are frustrated at having no outlet for their opinions.

It so happens that a practical test of what Arab audiences really think is now under way. For the first time, al-Jazeera has a serious, dangerous rival. The competitor is not al-Hurra, an American government channel beamed from Washington that has struggled, and largely failed, to convince Arabs that it is objective. It is the Saudi-owned al-Arabiya, a 24-hour news channel based in Dubai.

At its launch early in 2003, al-Arabiya looked very much like al-Jazeera, but with flashier graphics. This was not surprising, since the Qatari channel had set the standard, and al-Arabiya actually poached some of its best-known newscasters. Al-Arabiya's coverage of the Iraq war—which again, fortuitously, earned it an instant audience—was also similar to al-Jazeera's.

Last year, however, al-Arabiya's owner, who happens to be a brother-in-law of Saudi Arabia's King Fahd, put a new, staunchly pro-American editor in charge. Since then the two channels' coverage—and particularly their coverage of Iraq—has diverged dramatically.

A muscular rival

Watching their contrasting takes on November's offensive by American marines in Fallujah, for example, one might have thought they were covering different events. While al-Jazeera focused on civilian deaths and heroic resistance, al-Arabiya pictured the storming of a terrorist haven. Before Iraq's election, the Dubai channel broadcast saturation get-out-the-vote advertising, as well as a four-part exclusive interview with the interim prime minister, Iyad Allawi. While senior American officials shun al-Jazeera, President George Bush has twice granted its rival exclusive interviews.

Al-Arabiya's chief editor, Abdul Rahman al-Rashed, is unapologetic. “We attract liberal-minded people,” he says. “Jazeera attracts fanatics.” Officials at al-Jazeera hit back. “They are losing legitimacy fast,” says Ahmed al-Sheikh, an impish Palestinian who is the Qatari channel's hard-worked news editor. “Al-Arabiya can be more popular with governments and get more access, but we can't compromise. We've got to uphold our principles, and that is much more important.”

In some markets, it is true, al-Jazeera retains its edge. A recent survey of satellite news viewers in Cairo, for example, found that while 88% watched al-Jazeera regularly, the tally for its rival was 35%. But more Iraqis watch al-Arabiya than al-Jazeera, and in the key market of Saudi Arabia the two run neck-and-neck. The question of access is also more important than Mr Sheikh admits. While al-Arabiya is welcome nearly everywhere, al-Jazeera suffers under bans not only in official Washington, but in Iraq, Kuwait, Bahrain and Saudi Arabia. The Saudis will not even let its crews in to cover the *haj*.

And al-Arabiya has another advantage: money. Its mother company happens to own both MBC and Channel 2, the region's two most profitable commercial channels. It is also beginning to earn significant advertising revenue itself: $10m last year, it claims, which went some way to covering operating costs estimated at around $75m.

Al-Jazeera, with a similar budget, earns no advertising income except from some state-owned Qatari firms. The reason is simple. Saudi Arabia, which is responsible for four-fifths of Arab advertising spending, dislikes its politics. The kingdom's rulers also have little time for Qatar's, whom they tend to view as too big for their boots.

While expensive to run, al-Jazeera may on balance have been good for the tiny emirate. Qatar has gained both brand-recognition and a reputation for tolerance from hosting the station. But taken together, the accumulated bother of protecting and financing al-Jazeera appears to be swaying the Qataris.

Recently, the emirate announced it was preparing to privatise the channel. If it means it, and al-Jazeera is truly to be sold outright, its buyer will be pressed hard to make a deal with the Saudis. That would be a shame, because except for al-Jazeera, Saudi Arabia, through various proxies and deals, holds a virtual monopoly of the Arab satellite ether. In other words, Arabs may soon look back on the age of al-Jazeera as an all-too-brief flowering of critical, independent journalism.

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Prisons and punishment

Hotel California

Feb 24th 2005 | LANCASTER
From The Economist print edition

Hilary Thomas

You can check out, but you seldom leave

Get article background

“THE purpose of prison is punishment”, declares the mission statement at the entrance to the California State Prison, in Los Angeles County. The tattooed inmate known as K32096, some 11 years into a 13-year sentence for drug offences, has got the message: “There's no rehabilitation in prison. The CDC (California Department of Corrections) wants you to come back because it's their job security. And the medical treatment's bad: I've got hepatitis-C and I've been waiting five months to see a doctor.” Other prisoners add their complaints while the guards patiently stand by.

Could it be otherwise, given the overcrowding of California's prisons? The Lancaster prison, in the high Mojave desert, opened 12 years ago to house 2,200 offenders; now it has 4,600. One gym has become a makeshift dormitory, with three-tiered bunks for 120 “special needs” prisoners (ie, inmates who risk assault because they have reneged on drug debts, dropped out of the prison gangs or are serving time for child-molesting). The prison warden, one year into his job, finds it hard to recruit enough doctors and psychiatrists.

By California's ghastly standards, Lancaster is not particularly awful. There was a riot involving 300 inmates four years ago; last September one mentally disturbed prisoner killed his cellmate. All the same, one murderer describes it as “probably the calmest prison I've been in.”

Just as Lancaster's woes—race-based gangs, drugs, rape, overcrowding—are fairly typical of

California's penal system, so California's system is typical of America's. The state's imprisonment rate—455 out of every 100,000 people were inside in 2003—is a little below the national average and well behind Texas (702) and Louisiana (801); but it is still several times that of Britain or indeed any other developed country. California's jails now house 163,000 prisoners (each at an annual cost of $31,000); that is more than France, Germany and the Netherlands combined.

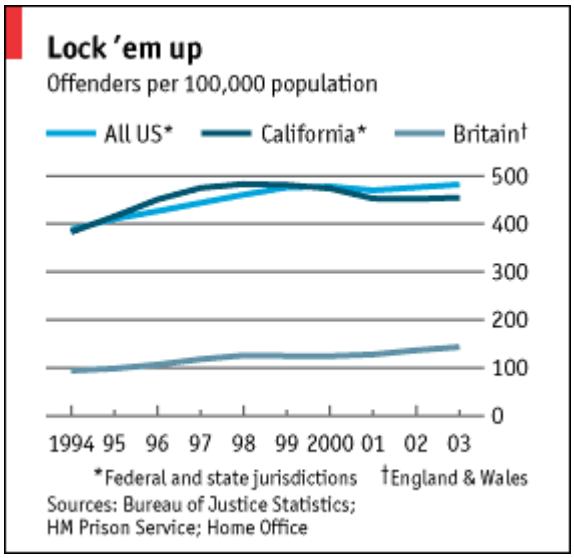
In an American context, California's prisons stand out for two things: overcrowding and recidivism. The state has only 32 prisons, which hold twice as many people as they were designed for. By contrast, New York state has 65,000 inmates in 70 prisons and Florida has 82,000 in 121 facilities. Worse, California's “correctional facilities” singularly fail to correct: three in four prisoners will be convicted of another crime within three years—and three out of five will be back in prison. (Nationally, a quarter are back in prison for new crimes and another quarter are back in prison for parole violations.)

This marks a substantial reversal. Last year a committee headed by George Deukmejian, a former Republican governor, pointed out that from the 1940s through the 1970s the Californian correctional system was seen as a national leader and “a model of efficiency”. The Deukmejian report is part of a flurry of prison-related activity under Governor Arnold Schwarzenegger, who has made reforming the system a priority. On his very first day in office, in November 2003, he appointed Roderick Hickman, a tough-talking former guard, to head the state's Youth and Adult Correctional Agency (YACA), which oversees all the prisons. This week, he sent a reform plan to the legislature; under Californian law the plan will automatically become law unless it is voted down in the next 60 days.

But is the governor really confronting the problem? The debate about why California's prisons became so terrible comes down to two things: dramatically tougher sentencing policies and mismanagement.

Trends in sentencing account for the huge splurge in prisoners. Back in 1970, the state housed 22,400 inmates; that figure had risen nearly eightfold by the end of the century. The main spur—as it has been everywhere in America—has been tougher mandatory sentencing, such as the state's infamous but extremely popular “three strikes” law. More than 30,000 prisoners are now serving life terms.

Conservatives, including Mr Schwarzenegger, insist that tough sentences have helped reduce crime. The new laws have certainly removed a large number of criminals from the streets; but each year California has to set free some 100,000 people like K32096. And the link between tough sentencing and crime rates is not absolute. California's crime rate—3,944 crimes per 100,000 residents in 2002—is higher than that in New York state (2,804), where the rate of imprisonment has risen much more slowly.



Whatever the rights and wrongs of sentencing, mismanagement has clearly made things much worse. Too few prisons have been built to deal with the rush. No money has gone into rehabilitation. And the whole system has been held to ransom by the politically powerful prison-guards' union. The California Correctional Peace Officers Association (CCPOA), which represents 31,000 guards, has been a generous donor to governors from both parties—and has been well looked after itself. The average guard's salary rose from $14,400 in 1980 to $54,000 in 2002, almost twice the national average for a prison officer.

One federal investigation reported last year that “rather than CDC staff correcting prisoners, some correctional officers acquire a prisoner's mentality: they form gangs, align with gangs, and spread the code of silence.” In other words, no guard will “snitch” on his brother officers, even if they organise gladiatorial fights between inmates or negligently allow a prisoner to die (last year, an inmate who had pulled a dialysis shunt from his arm bled to death while the guards were watching the Superbowl on TV).

The problem is not just the guards. As the Deukmejian report notes, “each warden acts as a feudal baron, employing different standards and different operating procedures”. The report pointed out that the YACA had “little or no power”. It is very difficult for Mr Hickman to remove bad wardens or indeed bad guards.

Mr Schwarzenegger's plan has the YACA firmly in his sights. He wants to rename YACA the “Department of Corrections and Rehabilitation”; to make prison wardens directly responsible to Mr Hickman; to put more emphasis again on education and rehabilitation; and, in order to break the infamous code of silence, to require prison guards to blow the whistle on any “misconduct, unethical or illegal behaviour”—or face dismissal.

Mr Schwarzenegger's reforms differ from the Deukmejian report in one important way: there is no independent civilian commission to oversee the correctional system. Mr Hickman, pointing out that civilian overseers failed to rein in the Los Angeles Police Department, says civilian oversight would simply add an extra level of bureaucracy. However, Joe Gunn from the Deukmejian commission has argued that the culture of an organisation cannot change “without having someone on the outside, free of politics, driving reform.”

This is an indirect reference to the power of the prison guards. Mr Schwarzenegger's supporters point out that he has refused to accept CCPOA donations; he has also tried to undo some of the huge wage increases promised by his Democratic predecessor, Gray Davis.

Yet the guards have still got a pretty good deal from the current governor, including better health-care benefits, pay rises well above inflation, and guarantees against lay-offs for two years. A federal judge has even accused Mr Schwarzenegger of conceding too much power and threatened to appoint a receiver to run the prison system.

This matters, because for Mr Schwarzenegger's reforms to stick, a lot depends on Mr Hickman's determination to break the code of silence. Ominously, the union, which was not involved in planning the reform, is being publicly sceptical, claiming that Mr Hickman's vow to “blow up the boxes” (a Schwarzeneggerian metaphor) will be more like a shifting of the furniture.

The other, bigger problem with Mr Schwarzenegger's plan is that fundamental question about sentencing laws. For Mr Schwarzenegger, these are non-negotiable: he is a strong supporter of the three-strikes law. Asked about the same law, Mr Hickman replies: “If I can succeed at reducing the recidivism rate, the sentencing policy would be irrelevant.” However, he envisages reducing the re-offending rate by only 2-3% a year.

As long as the courts continue to send huge numbers of people (often for somewhat trivial offences) into an overburdened system with neither the resources nor the will to reform them, it is hard to see how the prisons will change much. And failure to consider sentencing as part of the problem gives some of Mr Schwarzenegger's reforms an unreal aspect. Who, for example, could object to the goal of reducing the use of gyms as makeshift “bed space” by January 2006? But there are 9,000 prisoners crammed into such ugly beds at the moment—and more on the way.

Meanwhile, rehabilitation, according to the warden at Lancaster, will take more staff—and therefore more money. No wonder the prisoners themselves are sceptical. As one Latino inmate, K84265, puts it: “If I go back to the streets, I can make $60,000 a week selling drugs. What's the Correction Department doing to give us jobs? Basically, this is a big warehouse for human beings who've done wrong.”

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Redistricting

A better democracy

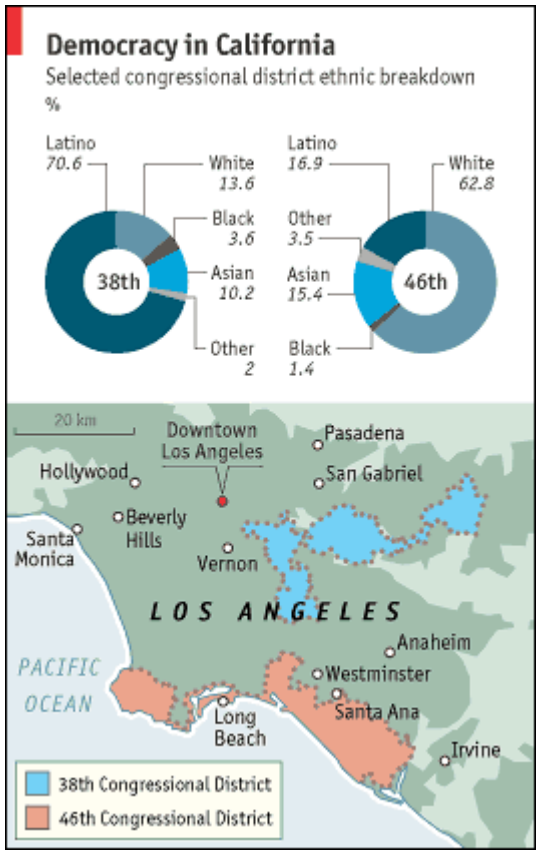
Feb 24th 2005 | LOS ANGELES
From The Economist print edition

Can the Golden State wean itself away from gerrymandering?

Get article background

IN HIS state-of-the-state address in January, Arnold Schwarzenegger recalled discovering about gerrymandering when he took his citizenship test. “I thought that was something that happened way back in the 1800s,” he said. Sadly, it is not. Thanks to the creative drawing of political boundaries by both parties, not one of California's 153 congressional and legislative seats up for election last November changed sides. And this is hardly unusual. Common Cause, a non-partisan group dedicated to increasing political accountability, points out that 98.2% of congressmen were re-elected to the House of Representatives last November.

But how to change things? Normally, political boundaries are adjusted after each ten-yearly census, and in California (as almost everywhere else) the job is done by the legislature. Mr Schwarzenegger wants to give the task to a bipartisan panel of retired judges, who would have to design compact and, where possible, competitive districts in time for the elections of 2006.



Cue for alarm and despondency on both sides of the aisle. With 53 seats, the California delegation is the biggest player in the 435-member House, and no one knows how many seats might change hands. Even Mr Schwarzenegger's chief ally there, David Dreier, would prefer him to hold off until after 2010. So, too, would the lawmakers in Sacramento. If they stick fast, the governor will have to get the voters to approve his plan at a special election in November. To get that, 598,105 citizens must sign a petition by July 5th. And bear in mind that California's voters have three times rejected attempts to take redistricting away from the legislature.

Would the new plan improve things? Certainly, there should be fewer tortured, improbable congressional districts such as the 38th or the 46th (see map). And there would be more of a contest. But even a more honest map would still favour the best-financed candidates. And many Californians, despite their claims to build a post-racial state, fret that judicial redistricting would lessen the number of minority representatives. Under the present system of electoral ghettos, a district such as the 38th guarantees the Latinos of east Los Angeles a voice in

Washington.

Perhaps the best solution is the open primary, in which Republicans may vote for Democrats and vice versa. This should encourage both parties to select moderate candidates. Mr Schwarzenegger likes this idea, and no wonder. He holds his job only because of the recall of Governor Gray Davis; wildly popular though he is, he would never have made it through a Republican primary.

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Gangs

Going global

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Why street thugs are getting nastier

AP

Get article background

Cool for some

WHEN Laura Bush spoke out about gangs recently, some wondered if the demure First Lady had watched “West Side Story” once too often. But Mrs Bush is not about to face down the Gangster Disciples; she just wants to help boys avoid being lured into gangs at all.

The FBI, too, is getting more interested in the problem. The latest parts of its “national gang strategy” include a $10m National Gang Intelligence Centre to act with local law-enforcement agencies, more gang task-forces across the country, and the reclassification of gangs as “criminal organisations and enterprises”. This renaming will allow members to be prosecuted under federal racketeering statutes, which carry tougher sentences.

Is America's gang problem getting worse? The Justice Department says there are now 30,000 gangs with more than 800,000 members. The National Youth Gang Centre (NYGC), which conducts an annual survey that is funded by the Justice Department, gives lower ones (see table). It concedes that every town of 250,000 people now has a gang problem, but it thinks the tide has turned: the number of rural counties and small cities reporting gang activity dropped considerably between 1996 and 2002.

Precise numbers are tricky, not least because some police departments disagree on what constitutes a gang and others dislike sharing information. One expert defines gangs as “organisations of the socially excluded” that have become radicalised; a few have even converted to militant Islam. Yet sociologists contend there are plenty of wannabe gangs around too, groups of teens who are more interested in social status and gangsta rap than in causing serious trouble. The internet makes it increasingly easy for them to copy the colours, symbols and tattoos of more violent gangs.

But there are several other reasons why gangs are getting more attention now:

• **Wider networks**. Violent gangs are increasingly linking up and going international, helped by the internet, immigration and America's deportation of criminals. One especially violent gang under close FBI scrutiny is Mara Salvatrucha (MS), a network of street thugs and former

paramilitary guerrillas whose exact genesis is disputed, but which got its first toehold among the children of Salvadorean refugees in Los Angeles. MS now has a stronghold in northern Virginia, as well as in Central America.

Latino gangs are much in the news and growing, but they are still probably a minority. The 2002 study by the National Major Gang Task Force (NMGTF) found that nearly 38% of adult gang members in prison were black, nearly 33% white, about 14% Latino and 3.6% Asian.

Levelling off

	Youth gang membership	Number of gangs
1996	*846,500*	*31,000*
1997	*816,000*	*30,500*
1998	*780,200*	*28,700*
1999	*840,500*	*26,000*
2000	*772,500*	*24,500*
2002	*731,500*	*21,500*

Source: National Youth Gang Centre

• **Violence and drugs**. Gangs account for a large share of violent and drug-related crime in America, ranging from kidnapping to extortion, robbery and killing for hire. The NYGC estimates that one-third of gangs are involved in drug-dealing. “Gangs are the new organised crime,” says Patrick Camden, a Chicago police spokesman. “They're much more violent than the Mafia ever was.” At least half the homicides committed in Chicago, he reckons, are gang-related; the city has reduced its murder rate by targeting gangs.

• **Terrorism**. The potential link between gangs and terrorists, real or not, is driving much of the new law-enforcement effort. Some reports claim that members of MS have met al-Qaeda members in El Salvador. Meanwhile, overburdened police departments have found that they can get more federal money and resources these days if they can link local policing efforts to homeland security. Many have increased their intelligence-sharing with federal agencies. The FBI, too, with its new anti-gang strategy, appears to be piggy-backing on the anti-terrorism effort.

One worry about the new get-tough policy is that it will make gangs more deeply entrenched, with no hope of reform for members once they are sucked into the network. James Short, an expert on gangs at Washington State University, thinks “excessive incarceration” could feed gangs for years to come. The number of prison inmates who belong to gangs has risen in recent decades and stands at about 20% today, according to the NMGTF. For many young men who have spent years behind bars among gang-members, life back on the streets still offers too few alternatives to a life of crime. Mrs Bush will have her work cut out to save them.

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Social Security reform

A hard sell

Feb 24th 2005 | WASHINGTON, DC
From The Economist print edition

George Bush's efforts to revamp the pensions system are losing momentum

WHILE the president was glad-handing those cussed Europeans, America's lawmakers were in their districts, taking the political temperature on George Bush's top domestic priority: Social Security reform. Both Democrats and Republicans had strict instructions from their leaders. Equipped with snazzy PowerPoint presentations and a video of Mr Bush, Republicans were to argue the case for private accounts. Democrats were to point out that the pension system's problems were not as dire as Mr Bush suggested, and could be fixed with more modest changes. So far, the opposition is more energised.

Social Security reform, for now, is losing rather than gaining political momentum in Washington. Despite several presidential sales-trips to the heartland, Americans have not embraced private accounts. A *Wall Street Journal*/NBC poll in early February suggested that support for private accounts has fallen from 46% to 40% in recent weeks. More important, opponents of private accounts, particularly older people, care more, shout louder and vote more than younger supporters.

Republican congressmen are therefore loth to endorse pension reform unless they are sure it will pass the Senate. And so far virtually all Senate Democrats are categorically opposed to the idea. More important, it is becoming clearer that the kind of compromises necessary to prise away the necessary Democrat votes will appal conservative Republicans.

Lindsey Graham, a Republican senator from South Carolina, is working behind the scenes with moderates from both parties to reach a deal. He has argued that benefit changes must be progressive. More controversially, Mr Graham proposes that the cap on the level of wages subject to payroll taxes should be lifted from today's $90,000 to as high as $200,000 to pay for the transition costs of creating private accounts. On February 16th, Mr Bush said that although he was implacably opposed to raising the payroll-tax rate, all other options—including raising the payroll-tax cap—were on the table.

Conservative tax-cutters were horrified. “I, for one, am one of those that didn't come here to raise taxes,” fumed Tom DeLay, the majority leader in the House. Republican activists could not understand the logic, or the timing, of Mr Bush's concession. His comments overshadowed long-awaited congressional testimony from Alan Greenspan, in which the Fed chairman cautiously endorsed the idea of private accounts.

And Republicans reckoned that the president had given away a bargaining chip to Democrats for no gain. “Mr Bush has all but guaranteed that Democrats will stage a tax-cap auction in exchange for their votes,” moaned the *Wall Street Journal*. Seasoned politicos muttered about White House incompetence, pointing out Mr Bush's first-term legislative successes—tax cuts, the extension of Medicare and education reform—were much easier, since they left no political losers.

Optimists point out that the campaign for pension reform is still in its early days. But, as many Republicans privately acknowledge, any plausible compromise is likely to include revenue raising as well as benefit cuts. One leading House Republican has talked about changing Social Security's basic funding source from the payroll tax to a value-added tax.

Others argue that a successful political strategy depends on tying Social Security reform to tax reform, Mr Bush's other big second-term goal, in a grand bargain. At this stage, no one knows how; hence the eagerness of so many Republicans to keep their heads down.

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Rocky Flats

Tread warily, you deer-watchers

Feb 24th 2005 | DENVER
From The Economist print edition

Turning nuclear sites into wildlife refuges isn't that easy

AP

Bambi is enriched

ROCKY FLATS is as well known for its radioactivity as for its mule deer. The 6,250-acre (2,500 hectare) swathe of prairie just east of the Rocky Mountains was home to a secret factory that made nuclear-bomb triggers for 36 years until the federal government shut it in 1989 for safety reasons. Now the government wants to make the site an example of environmental regeneration. Rocky Flats is being cleaned up, at a cost of $7.2 billion; in 2007 it is due to reopen as a wildlife refuge.

This happy conclusion, even under the government's plan, comes with a few asterisks and caveats. The new refuge will exclude a central portion of around 1,000 acres, which is too heavily laced with plutonium to be open for anything. And, under a new conservation plan from the federal US Fish and Wildlife Service, the whole area will still be relatively inaccessible for humans. For the first five years, access for walkers will be limited to a one-mile trail; after that, they will get 16 miles for hiking. Hunters will also be restricted.

“It will be safe,” insists Joe Legare, who runs the local Department of Energy office, as he walks along one of the “hot spots” where workers are cutting up and removing radioactive underground pipes. Rocky Flats is supposed to be a model for other such sites. Another example, a little closer to Denver, is the Rocky Mountain Arsenal, which last year became a 17,000-acre wildlife refuge.

From the government's point of view, turning nuclear sites into nature reserves is thrifty environmentalism. It would cost a fortune to clean up the site so that people could live there permanently; but making it safe for “wildlife-dependent” public use (meaning walkers, cyclists and hunters) is more affordable. The law that backs the current clean-up was sponsored by Congressman Mark Udall, a Colorado Democrat and a keen outdoorsman himself.

Other locals are not so sure. “Close it, fence it, pave it over,” a local environmental engineer pleaded at a forum in Boulder last year. “We should declare this site a national sacrifice zone. Rocky Flats is America's Hiroshima.” In January, Jon Lipsky, the FBI agent who led the 1989 raid on Rocky Flats, claimed that there had been a cover-up by the energy and justice departments about illegal contamination at the site; he has also given warning that, even after the clean-up, the site will still be too dangerous for hikers and cyclists.

Much is made locally of a study last year by the Fish and Wildlife Service that found traces of

plutonium, americium and uranium in two of 26 deer culled from the “buffer zone” around the weapons-production area. But the service, which will run the refuge once it is cleaned up, insists the traces were not significant. “I'd certainly eat them,” says the local manager, Dean Rundle.

In theory, fears about the clean-up will be answered by the General Accounting Office, the investigative arm of Congress; it expects to issue its final report by August. The grand-jury investigation into past environmental mess-ups at the site has yet to reveal its findings. A continuing problem for the government is the lack of trust among local people, which dates back to the original testing.

The first person to testify before the grand jury was Jacque Brever, who worked for a decade in plutonium recovery in one of Rocky Flats' most dangerous areas. She suffers from thyroid cancer, which she blames on her work, and has received scant medical compensation. “The Energy Department is just sitting around waiting for us all to die,” she says, insisting that the refuge should remain off-limits to the public forever, except for research.

The Department of Energy is not exactly paralysed. While cleaning up Rocky Flats, it is thinking of building a new factory somewhere else to produce a new generation of plutonium bombs.

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Assisted suicide

Death with dignity

Feb 24th 2005
From The Economist print edition

The Supreme Court agrees to review a challenge to assisted suicide

Get article background

OREGON'S law permitting doctor-assisted suicide is the only one of its kind in any American state. Since the “Death with Dignity Act” came into force seven years ago, close to 200 terminally ill patients are known to have chosen to end their lives with a cocktail of drugs. Conservatives, many of whom regard the issue with as much passion as they do abortion, have long sought to overturn the law. This week, the Supreme Court agreed to hear a challenge by the Bush administration.

In the United States, patients have the right to refuse medical treatment, including life-support systems. But there is no “right to die”. State courts and the Supreme Court have always distinguished between “the withdrawal and withholding” of treatment based on a patient's wishes and doctor-assisted suicide. In 1997, the Supreme Court upheld a ban on assisted suicide in the state of Washington, but left decisions on the issue to the individual states.

These are still extremely controversial. In Florida this week, a judge extended for at least two days an order to keep a feeding tube in place for Terri Schiavo, a woman who became severely brain-damaged 15 years ago; he said he needed more time to consider her parents' objections (her husband wants the tube to be removed).

Under Oregon's voter-approved law, doctors can prescribe controlled drugs to mentally competent, terminally ill patients who are diagnosed to be within six months of death. Euthanasia, where a third party intentionally terminates life, is banned throughout America. In Oregon the patient must take the drugs by himself, without the doctor even being present.

Assisted suicide represents less than 0.1% of the total deaths in Oregon. Most of those who sought a doctor's help to end their lives were less concerned with pain than with a loss of dignity and a desire to control the circumstances of their death. Most were cancer patients; most were also in hospice programmes.

In November 2001, John Ashcroft, then the attorney-general, challenged Oregon's law. He said that allowing doctors to prescribe drugs that were not for a “legitimate medical purpose” violated the Controlled Substances Act. He further argued that taking drugs to commit suicide was an illegal “drug abuse”.

Since then, *Ashcroft v Oregon* has been working its way up through the federal courts. Last year, the 9th Circuit Court of Appeals ruled that the attorney-general had exceeded his authority. The Supreme Court justices have said they will hear arguments on the case, now known as *Gonzales v Oregon* following Alberto Gonzales's appointment as the new attorney-general, in October.

California and Vermont are now considering adopting laws that are similar to Oregon's. Eli Stutsman, an Oregon lawyer who argued the case before the 9th Circuit Court last year, says the Supreme Court has tended to support state authority over federal authority. He expects it will do so again. “The legal issues just aren't that tough in this case,” he says. Messrs Ashcroft and Gonzales no doubt disagree.

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Splitting up Washington state

You take the dry side

Feb 24th 2005 | SEATTLE
From The Economist print edition

A politically inspired carve-up

PEOPLE in western Washington state tend to work for Boeing or Microsoft, vote Democratic and endure lots of rain. Those on the east side are just as likely to work on a farm, vote Republican and enjoy dry weather, the latter thanks to the Cascade mountains, which split the state and shield easterners from storms swirling off the Pacific Ocean.

A handful of state politicians, mostly from the eastern half, don't see colourful diversity; they see a reason to split the state in two. On February 22nd, a state Senate bill that would divide the state "from the crest of the Cascade mountains east to the existing state border" got a brief but well-publicised hearing in Olympia, the state capital.

The drysiders' beef is partly political. Both the state's senators—Maria Cantwell and Patty Murray—are Seattle-powered Democrats. Christine Gregoire, a Democrat, narrowly won the gubernatorial election last year (still being contested) by taking all eight western counties, while her opponent prevailed in every county in the east.

Bob Morton, a Republican state senator from Washington's north-east corner, says the bill is based in sound economics too. Western politicians, he says, meddle in east-side business, forcing urban land-use rules on the mostly rural east and seeking to divert water from the Columbia River to help western city-dwellers and salmon. That, along with Microsoft's and Boeing's increased use of foreign suppliers, has convinced Mr Morton that "East Washington state" and its $5.4 billion agricultural economy would fare better on its own.

Would it really? Farm products need roads to reach markets, and the westsiders pay for a lot of the east's roads. Besides, the tendency in state governance is towards greater integration, not less, argues Bruce Katz, a government expert at the Brookings Institution. Reduced federal spending, the high property costs in cities such as Seattle (or Boston and San Francisco) that force businesses to look elsewhere within a state, the rising costs of providing roads and police: all these things make states better off retaining current boundaries.

Even if the split-Washington bill is mostly for show, it can still serve a purpose, argues Mark Smith, a political scientist at the University of Washington. Wetside politicians may become a little more deferential to dryside needs simply to avoid appearing dictatorial. And that would be a victory for the east.

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Lexington

An ode to failure

Feb 24th 2005
From The Economist print edition

Here's to the great American loser

THERE will be plenty of cuddlier films at this weekend's Oscars than Clint Eastwood's “Million Dollar Baby”. The film tells the story of a young woman, played by Hilary Swank, who escapes from a life of drudgery by spending her every spare hour in a boxing gym. For a while, it looks as if she is talented enough to escape. Then the fates deal her a terrible blow: she loses her championship fight, is horribly injured and persuades her trainer, played by Mr Eastwood, to kill her.

Dirty Harry's former friends on the right have reacted with horror to the film's unAmerican enthusiasm for euthanasia. In fact, the film is most remarkable as an extremely American parable on success and failure. When Ms Swank gets injured, her trainer is eaten up with guilt. But she tells him not to be so hard on himself: she is far happier to have tasted a little success and ended up a cripple than to have remained a nobody.

Americans have always been excessive worshippers of what William James called “the bitch goddess success”. Self-help gurus have topped the bestseller list since Benjamin Franklin published his autobiography. Americans are much more likely than Europeans to believe that people can get ahead in life so long as they are willing to work hard. And they are much more likely to choose a high-paying job that carries a risk of redundancy than a lower-paid job that guarantees security.

But you can't have winners without losers (or how would you know how well you are doing?). And you can't broaden opportunity without also broadening the opportunity to fail. For instance, until relatively recently, blacks could not blame themselves for their failure in the “race of life”, in

Abraham Lincoln's phrase, because they were debarred from so many parts of it. Now the barriers are lifted, the picture is more complicated.

All of which creates a huge problem: how exactly should a hyper-competitive society deal with its losers? It is all very well to note that drunkards and slackers get what they deserve. But what about the honest toilers? One way to deal with the problem is to offer people as many second chances as possible. In his intriguing new book “Born Losers: A History of Failure in America” (Harvard), Scott Sandage argues that the mid-19th century saw a redefinition of failure—from something that described a lousy business to something that defined a whole life.

Yet one of the striking things about America is how valiantly it has resisted the idea that there is any such thing as a born loser. American schools resist streaming their pupils much longer than their European counterparts: the whole point is to fit in rather than to stand out. American higher education has numerous points of entry and re-entry. And the American legal system has some of the most generous bankruptcy rules in the world. In Europe, a bankrupt is often still a ruined man; in America, he is a risk-taking entrepreneur.

American history—not to mention American folklore—is replete with examples of people who tried and tried again until they made a success of their lives. Lincoln was a bankrupt store-keeper. Henry Ford was a serial failure. At 40, Thomas Watson, the architect of IBM, faced prison. America's past is also full of people who came back from the brink. Steve Jobs has gone from has-been to icon. Martha Stewart has a lucrative television contract waiting for her when she comes out of prison.

A second way to deal with losers is to celebrate them—or at least sing about them. Perhaps in reaction to the relentless boosterism of business life, American popular culture often sympathises with the losers. In Arthur Miller's “Death of a Salesman” Willy Loman chooses to commit suicide rather than spend the rest of his life “ringing up a zero”. John Updike's “Rabbit” Angstrom is a lecherous car salesman whose best days were on a school basketball court. Scott Adams's Dilbert is a diminutive Everyman trapped in a cubicle. Where would country music be without broken hearts and broken-down trucks?

The loser now will be later to win

But even in the loser-loving bits of popular culture, the American obsession with success has a habit of winning through. More often than not, born losers turn out to be winners in disguise. In one version of this idea, the loser turns out to be a winner by virtue of his very ordinariness. The hero of Frank Capra's “It's a Wonderful Life” is a small-town plodder who hovers on the edge of ruin; but in the end the film concludes triumphantly, “No man is a failure who has friends.”

In another version—the one that burst on the scene with James Dean and was rapidly institutionalised by the counter-culture—the loser turns out to be a winner because he is a rebel against society's repressive norms. He is freer than the average American because he isn't encumbered with property (he has nothing to lose); or he is more genuine because he lives according to his own lights, rather than artificial conventions. Bob Dylan was a master of counter-cultural inversion. “The loser now/Will be later to win”, he rasped at one point. “She knows there's no success like failure/And that failure's no success at all”, he moaned at another.

H.L. Mencken had a grumpy verdict on this attitude to success and failure: for him, the typical American was “vexed, at one and the same time, by delusions of grandeur and an inferiority complex”. Delusions of grandeur are certainly common: “American Idol” presents a limitless supply of talentless narcissists, each convinced he is the next Frank Sinatra. Inferiority complexes are common too: America is also full of perfectly successful people who are obsessed by their

failure to live up to their self-help manuals. But Mencken still seems too cynical. The worship of success inspires not just extraordinary achievements but also worthwhile failures. That is the unsettling but very American message of “Million Dollar Baby”.

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Hugo Chávez

A spectre stalks the Americas

Feb 24th 2005 | CARACAS AND SÃO PAULO
From The Economist print edition

AP

Is the United States' nightmare of "a second Cuba" coming true in Venezuela?

Get article background

EVER since he was first elected as Venezuela's president in 1998, Hugo Chávez has been fond of anti-American rhetoric. American officials long ignored this, preferring to watch what the Venezuelan did rather than what he said. Since Mr Chávez trounced his opponents in a recall referendum last August, not only has he turned up the volume of his "anti-imperialist" pronouncements, but some of his words are turning into deeds. As a result, some in Washington are starting to become alarmed about Mr Chávez and the wider regional implications of his leftist-nationalist "revolution".

Mr Chávez, a former army officer, recently declared himself to be a *Fidelista*, a follower, that is, of Cuba's communist president, Fidel Castro, his closest ally. He has ordered Venezuela's armed forces to draw up a new Cuban-style strategy in which the top priority has become preparing to fight a war of resistance against a hypothetical invasion by the United States, now seen as the principal adversary. To this end, Mr Chávez has recently ordered a doubling of the army's reserve, to more than 100,000 troops under his personal command. "Popular defence units" of 50 to 500 civilians are to be set up in workplaces and on farms.

At the same time, the president is shopping for arms. In recent months, he has bought from Russia 40 Mi35 helicopters and 100,000 Kalashnikov rifles. He is negotiating for up to 24 Brazilian Super-Tucano ground-attack planes and four Spanish naval corvettes. The United States has

protested to Russia over its arms sales, and wonders out loud what they are for. So do the armed forces in Colombia, the Americans' closest ally in the region, with which Venezuela shares a disputed border. The answer, say Venezuelan officials, is partly to replace outdated kit, and partly to do what both the United States and Colombia have been pressing for: to defend the border against incursions by Colombian leftist guerrillas, rightist paramilitaries and drug-traffickers.

A senior Colombian official asks what will happen to the Venezuelan army's existing rifles. He fears that these, and perhaps some of the ammunition for the new Kalashnikovs, will find their way to the FARC guerrillas in their country, who are ideological soulmates of Mr Chávez.

A second issue on which Venezuela's stance is changing is oil. The United States has long been the main market for Venezuela's oil exports. Now Mr Chávez is negotiating trade and investment deals with Russia, Brazil, Iran and China. The next step, some in Washington worry, will be that Venezuela will start diverting its oil from the United States to China. That is not an immediate possibility: China lacks refineries to process Venezuela's heavy crude. But it may happen in the medium term. Mr Chávez has signalled a desire to sell Citgo, a state-owned Venezuelan company that refines and retails the country's oil in the United States. Even so, Venezuela's foreign minister stressed this week that his country will “always be a reliable supplier to the United States”.

A third controversy is Mr Chávez's tightening grip at home. Since the referendum, the opposition has all but disappeared as a coherent force. The *chavista* majority in the legislature has appointed an expanded—and avowedly “revolutionary”—supreme court, which in turn has named a new electoral authority, with a 4-1 pro-government majority.

These developments have produced differing reactions across the Americas. In recent weeks, the United States has unleashed a barrage of criticism of Mr Chávez. Condoleezza Rice, the secretary of state, called his government a “negative force” in the region and some aspects of his rule “very deeply troubling”.

For half a century, American policy in Latin America has been dominated by the desire to prevent a “second Cuba”. Some officials in Washington fear that is what is now emerging in Venezuela. They also worry that Venezuela may be soft on “narco-terrorism”, and trying to export its “revolution” to the rest of the region. As a result, they want to isolate Mr Chávez.

But George Bush is finding it hard to persuade the rest of Latin America to do this. Last week, Colombia's president, Álvaro Uribe, met Mr Chávez, putting a diplomatic face on a bitter dispute following the abduction in Caracas and subsequent arrest in Colombia of a senior FARC leader. However temporary, this rapprochement, brokered in part by Mr Castro and backed by Brazil, Chile and Peru, ended up making the United States, rather than Venezuela, look isolated. One day later, Brazil's president, Luiz Inácio Lula da Silva, visited Caracas to seal a “strategic alliance”, signing two dozen trade and investment accords. Lula even praised Venezuelan democracy, to the dismay of the remnants of the opposition, which insists that the referendum was rigged.

Should the region be worried, as America argues? The Colombian official, noting Mr Chávez's speeches about recreating the “greater Colombia” that in the 1820s briefly united the two countries under his hero, Simón Bolívar, is convinced that Venezuela, despite its repeated denials, is helping the FARC.

Brazil, whose president represents a more moderate brand of leftism than Mr Chávez's, takes a more relaxed view. According to a senior Brazilian diplomat in Brasília, the referendum removed any doubts about Mr Chávez's democratic legitimacy. Brazil does not see any danger of an arms race—indeed, nobody objects to the mooted sale of Super-Tucanos. Some Brazilians see dealing with Venezuela as a way of reducing the risk of intervention by the United States, whose presence in Colombia they dislike. The diplomat notes that Brazil has sealed similar “strategic alliances” with

Argentina and Peru. Brazil's dialogue with Venezuela has the blessing of Washington.

The prevailing attitude in Latin America is that Mr Chávez has not yet crossed the line between democracy and authoritarianism—and that he is unlikely to do so unless he feels cornered by the United States. According to this view, Mr Chávez's “revolution”, paid for by oil wealth, would be hard to imitate elsewhere. So, it is argued, there is more to be gained by engaging Mr Chávez in a democratic South America than by isolating him.

Certainly, Mr Chávez's intentions are sufficiently ambiguous to warrant close scrutiny by South America's democrats. The United States this week dismissed claims by Mr Chávez and Mr Castro that it is planning to assassinate the Venezuelan leader. Any attempt to execute “regime change” in Venezuela—such as the failed coup in 2002 which the United States did not condemn—would be rejected in the region as the ousting of an elected leader. But whatever the neighbours say, rising tension between the United States and Venezuela will be a dominant theme in the region for the foreseeable future.

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Colombia

A new offensive?

Feb 24th 2005 | BOGOTÁ
From The Economist print edition

After a lull, the guerrillas strike back

Get article background

SINCE taking office two and a half years ago, President Álvaro Uribe has appeared to enjoy much success against the Revolutionary Armed Forces of Colombia (FARC), Latin America's oldest and largest guerrilla army. Mr Uribe's “democratic security” policy is a concerted effort to retake territory for the state. The government has placed police in every municipality and beefed up the army with part-time “peasant soldiers” as well as new elite units which have taken the offensive against the guerrillas. Yet in the past few weeks, the FARC has finally hit back. In the bloodiest string of attacks since Mr Uribe took office, so far this month it has killed over 50 soldiers. Does this herald a new FARC offensive, or signify the failure of the government's security drive?

Neither, say officials. They blame the casualties on mistakes by individuals. At Iscuandé, in Nariño department, where 16 troops died in an attack on a naval base, “peasant soldiers” were partying and had failed to post sentries, they say. On February 9th, 19 soldiers were killed in remote jungle in Antioquia. They were lured into an ambush by a strong FARC column during an army offensive aimed at preventing the guerrillas from re-establishing their hold over the Gulf of Urabá, a trade route for drugs and guns. The commanding general was sacked for failing to arrange air support for the ambushed patrol.

Last weekend, a bomb outside a hotel in a town in Meta killed three soldiers and two civilians, and injured another 11 troops. That followed heavy fighting in the area, in which the government says 60 guerrillas and five soldiers died.

General Carlos Ospina, the armed-forces commander, insists that these setbacks have not damaged the army's ascendancy. Officials claim that the FARC has lost some 6,000 of its 17,000 members through desertions, captures and casualties. But Alfredo Rangel, an independent security analyst, argues that the FARC's quiescence was simply a tactical retreat—which is now over. He notes that although FARC attacks have been smaller and less deadly under Mr Uribe their frequency has not diminished.

One possibility is that the FARC attacks are an effort to force the government to withdraw troops from a longstanding operation, involving 17,000 soldiers, against guerrilla strongholds in the southern jungles of Caqueta and Putumayo. Another is that the FARC is determined to prevent Mr Uribe's drive to be re-elected in 2006, by casting doubt on the success of the “democratic security” policy. If so, Colombia may be in for a violent year.

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Mexico's sacred oil

Into deep water

Feb 24th 2005 | MEXICO CITY
From The Economist print edition

By shunning foreigners, politicians are set to doom their country's oil industry

Get article background

IN SOME ways, Mexico's oil industry has never done better. Pemex, the giant state oil and gas monopoly, is producing record amounts of crude oil and natural gas. Its oil output last year averaged 3.38m barrels per day, up 12% since 2000. Since 2001, President Vicente Fox's government has made an effort to reduce the federal budget's dependence on oil. This, together with high oil prices, has allowed Pemex to invest some $10 billion a year, or roughly double the average of the previous two decades.

But that is dwarfed by the almost $40 billion that Pemex paid the government last year in taxes and the transfer of profits. The oil firm still provides more than a third of total government revenues. And therein lies a problem. Unable or unwilling to free the oil industry, Mexico's politicians are flogging their cash cow into the ground.

Almost two-thirds of Pemex's output comes from one giant field, Cantarell in the Gulf of Mexico. Pemex officials recently confirmed that Cantarell's output will start to fall, in 2006 or soon after. In the first year, the rate of decline will be about 2%, but after that the field's output will fall by an annual 10%. The officials insist that there is no need for panic: new, smaller fields coming on stream will raise total production over the next two years.

Beyond that, however, the picture is indeed alarming. Pemex's proved oil reserves stood at 18.9 billion barrels in June 2004, according to the government. Without further discoveries, oil would run out in 11 years. Another source, the BP *Statistical Review of World Energy*, puts reserves at 16 billion barrels in 2003, down from 28.4 billion in 1999.

Pemex recently reported “possible” new reserves of up to 54 billion barrels further out in the Gulf. If exploited, the firm says, they might boost its total output to 6m-7m b/d. But to extract these would require a revolution in Mexico's nationalist oil policy. The new deposits lie in very deep water, a couple of thousand metres below sea level. Extracting oil at such depths is both a technical and financial challenge. Pemex has no deep-water experience. And Luis Ramírez, Pemex's chief executive, told a conference in Veracruz this week that developing the new fields requires a doubling of the firm's investment budget, to more than $20 billion a year.

The answer, to many industry experts, lies in calling in foreign companies that have the necessary capital and technology. That, after all, is what Fidel Castro's communist government has done in Cuba: Spain's Repsol YPF is drilling in Cuban waters. The oil majors are busy drilling in the American section of the Gulf.

But since 1938, when Mexico's government nationalised the industry, it has been an article of

faith, enshrined in the constitution, that all hydrocarbons belong to the state, for the state alone to exploit. In recent years, Pemex's managers have tried to get round this by offering “multiple service contracts” under which private oil companies are paid a fee—but not a share of output—to extract oil.

Even this has been too much for diehard nationalists, such as Manuel Bartlett, a senator from the formerly ruling Institutional Revolutionary Party. He sees these contracts as “surreptitious” privatisation. Since Mr Bartlett chairs the constitutional-affairs committee of Congress, his opinion matters. Opponents are challenging one of the multiple service contracts, with Repsol, in the courts. Pemex hopes to start framing contracts with foreign companies for deep-water exploration next year. But the legal and constitutional fog means that there might be rather few potential takers.

Next year, Mexico will hold a presidential election. Opinion polls suggest that the pro-business Mr Fox will be replaced either by Mr Bartlett's party or by an equally nationalist but more leftist rival. Either way, the next government may well face stark choices.

To introduce production-sharing contracts with multinationals would provoke a huge political battle. Alternatively, the government could give Pemex the greater financial autonomy its managers crave. But that is something Mr Bartlett also opposes, and it would require raising more tax revenue from elsewhere. The third option—presumably favoured by Mr Bartlett and the nationalists—is for Mexico to start importing oil in a decade or so. At least that would keep foreigners' paws off the 100% Mexican black stuff.

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Wal-Mart in Canada

Retaliating first

Feb 24th 2005 | MONTREAL AND SASKATOON
From The Economist print edition

A labour union's pyrrhic victory

Get article background

WHEN Wal-Mart moved into Canada just over a decade ago, the American retailing behemoth arrived with a splash, buying 122 stores of Woolco, a foundering chain. It turned down the chance to buy ten further Woolco outlets, including what was reputedly the most profitable of them all, because their workers belonged to a labour union.

Time has not tempered Wal-Mart's hatred of organised labour. On February 9th, the firm said that it would close the first of its stores anywhere in North America to unionise. Officially, the store, at Jonquière, a town some 400km (250 miles) north-east of Montreal, is shutting for economic reasons. It was “struggling” and had never turned a profit, the company said.

But few Canadians believe this. Wal-Mart refused to release any financial numbers for the store; in its decade in Canada, it has never previously shut down an outlet. The popular interpretation is that Wal-Mart was sending a message—especially to heavily-unionised Quebec—that it will not allow unions across its threshold.

Reaction was swift. There were bomb threats at other Wal-Marts. Columnists spoke of “capitalist terrorism” and called the closure “brutal and savage”. Some people questioned the aggressive tactics of the United Food and Commercial Workers (UFCW), the union involved. But very few sided with Wal-Mart. Bernard Landry, the leader of the opposition Parti Québécois, has called for a boycott of the retailer.

Further closures may follow. In January, the provincial government's labour board recognised the union at a second Wal-Mart store in Quebec, at St-Hyacinthe, east of Montreal; the board is considering a request for recognition at a third store. The UFCW is recruiting at another dozen of the 44 stores in Quebec and at twice that number elsewhere in Canada.

Its is no accident that the union's organising campaign has progressed furthest in Quebec and, to a lesser degree, Saskatchewan. Both provinces have deep social-democratic traditions, and labour laws that allow a workplace to be certified as unionised without a vote, as long as a majority of employees sign union cards. Wal-Mart calls this provision “undemocratic” and an invitation to coercion and abuse by union heavies. Labour activists counter that it protects workers from company intimidation prior to a vote. Tellingly, all votes held to unionise Wal-Mart stores have ended in failure.

The Jonquière store's closure came just a week after the union had given up on negotiations and asked the provincial government to name an arbitrator to impose a binding labour contract. The chances that the contract would have been favourable to Wal-Mart were “highly remote”, said one

of its managers.

The union reckons that Wal-Mart pays its workers (“associates” it calls them) up to 40% less than its competitors. Staffing levels, workloads, benefits and job security also figure prominently among the UFCW's concerns. Even the much-ridiculed cheering session which associates are obliged to take part in at the beginning of their shifts is on the union's list of issues to be negotiated.

If the St-Hyacinthe store, said by the UFCW to be one of the most profitable in Canada, is next to be shut down, it won't be before Wal-Mart's lawyers try to get rid of the union. On February 18th, they filed a court challenge to the store's card-based certification. In Saskatchewan, too, the company is fighting the union in court as well as on the shop floor. “You have to take them on on several fronts,” says Paul Meinema, a UFCW leader in Saskatoon. He denies that the closure of the Jonquière store has sent a chill through the union's efforts in Saskatchewan.

The same cannot be said of the UFCW's efforts to unionise Wal-Mart workers in the United States. News of the Jonquière store's closure was widely reported south of the border. Two days later all 17 workers of the car-maintenance department at a Wal-Mart in New Castle, Pennsylvania voted against joining the union. The Jonquière closure “showed us just how far the company was prepared to go to keep unions out,” said a worker.

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China, Japan and America

Keeping their balance

Feb 24th 2005
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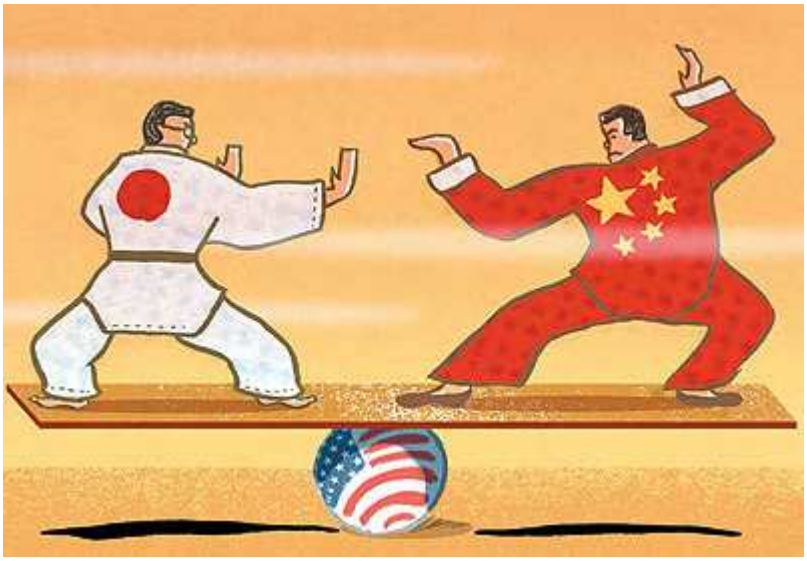

China takes umbrage as America and Japan close ranks

Get article background

SOME layers of frost from the cold-war years have still to be chipped away in East Asia, but these days it is not the Russians who are prolonging the chill. Take China's bad-tempered reaction this week to a joint statement by America and Japan that they want to “encourage the peaceful resolution of issues concerning the Taiwan Strait through dialogue.” Both have said as much before. Even China, which claims Taiwan as its own, says it wants a peaceful solution to the stand-off, though it insists that reunification with the mainland is the only solution and refuses to rule out using force should Taiwan make a dash for independence. So why the hostility?

This was the first time that Japan and America had actually named Taiwan, in a formal statement, as a matter of joint concern. In the past they have preferred to waffle on about the possibility of their co-operating to deal with problems “in areas surrounding Japan”. This was the preferred euphemism for, among others, a potential China-Taiwan crisis that would not only pit the region's second-largest economy against its fourth-largest, but would also be bound to draw in America, which has pledged to help Taiwan defend itself against attack, and by extension America's chief ally in the region, Japan.

Tensions over Taiwan have indeed risen in recent years, as Taiwan's president, Chen Shui-bian, has made a point of affirming the island's de facto independence from China, even as trade and other ties have flourished across the strait. But China also has other worries.

One is Japan's increasingly unapologetic flexing of its diplomatic muscle and its greater readiness to see its armed forces co-operate more closely with America's both around the region (it has taken a regional lead in efforts to intercept illicit cargoes, particularly to and from North Korea, under the American-led proliferation security initiative) and further afield (it lent logistical support for America's war in Afghanistan, and has a contingent of troops helping the reconstruction in Iraq).

Another of China's worries is that America and Japan are particularly seeking to constrain China's growing influence in Asia and beyond. Yet the same joint statement that included the controversial reference to Taiwan also included a joint pledge to welcome a “constructive” role for China, both regionally and globally.

Indeed, far from attempting to constrain China, some in the region have worried that America has recently allowed it too much room for manoeuvre. A planned reduction of American troop numbers in Asia initially generated some nervousness that America's distraction over Iraq would lead it to neglect the region, where even countries mesmerised by the prospect of the growing Chinese market are keen for America to continue playing a balancing role to keep old rivalries between China, Japan, Russia and others in check.

In fact, the troop reductions (including basing fewer soldiers permanently in South Korea) were long overdue. To counter new threats requires a more flexible force. American officials insist they will not leave Asia to its own devices.

Is there room for so many big powers in Asia? Japan and China are natural rivals for regional leadership, but until lately China seemed to be winning. Its growing market gives it clout. For two years, egged on by America, Japan, South Korea and Russia, it has also played a key role in the six-party talks on North Korea's nuclear challenge. As a result, China and South Korea had seemed particularly close.

But China is learning that the appearance of influence is not the same as the real thing. Earlier this month North Korea pulled out of the six-party talks and in effect declared itself to be a nuclear power. This embarrassed China, which knows that a rampant North Korea will only encourage Japan, South Korea and others to cuddle up more closely to America.

Meanwhile, what China has sometimes called its “peaceful rise”—an attempt to make its influence felt without alarming the neighbours—has been causing concern. Will a stronger China throw its weight about, the neighbours ask? America's secretary of state, Condoleezza Rice, has celebrated America's ability to have good relations with almost all of Asia's powers. But such rhetoric aside, America and others are keen to keep China's influence in proportion, if not in check.

In the process America has improved relations with India. Japan is developing military-to-military ties with Russia, and is deepening economic relations too, last year clinching an oil pipeline deal at China's expense. Meanwhile, America has upgraded security ties with Mongolia, Thailand, Singapore and the Philippines. When the Indian Ocean tsunami struck in December, America formed a temporary coalition with India, Japan and Australia—all countries able to mobilise ships and aircraft quickly—to bring aid to stricken areas. A less capable China was left out.

But the country China most worries about is Japan. Roused from its old cold-war pacifism by the prospect of a rising China and an increasingly hostile, nuclear-armed North Korea, Japan has been moving rapidly to upgrade its security alliance with America, including by working on missile defences that China deplores. It has also set aside guilt-ridden policies of the past. China recently overtook America as Japan's largest trading partner, but that has not stopped Japan from demanding (and receiving) an apology when a Chinese submarine was caught lurking in its waters last November. Japan has also started to cut back assistance to China, and has lobbied hard for

the European Union not to lift its arms embargo on the country.

All this for the sake of keeping a balance, Japan would argue. Yes, but it is an uneasy one.

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After the tsunami (1)

Missed chances

Feb 24th 2005 | COLOMBO
From The Economist print edition

Peace is no nearer in Sri Lanka

Reuters

Not an act of God

Get article background

ON ITS third anniversary this week, the ceasefire in Sri Lanka's 22-year civil war is “at breaking point”. So growled S.P. Thamilselvan, leader of the political wing of the Liberation Tigers of Tamil Eelam, on February 22nd. The rupture may not be as imminent as he implied. But hopes are fading that the destruction and misery wrought by the tsunami might narrow the gulf between the Tigers, struggling for a Tamil homeland in the north and east of the country, and the government, representing Sri Lanka's Sinhalese majority.

Peace talks broke down two years ago, and now Mr Thamilselvan accuses the government of engaging in a “secret war”. He was referring to the killing on February 7th of five people, including E. Kausalyan, a Tiger leader in the east of the country. This seemed to be part of a vicious tit-for-tat campaign of more than 200 assassinations between the Tigers and a rebel faction of its own, which broke away last March. These were the first such murders since the tsunami on December 26th. The Tigers believe the rebels cannot operate without help from the Sri Lankan army. Tensions rose further on February 23rd when the army accused the Tigers of killing one of its soldiers.

The Tigers were already losing patience with the government, accusing it of prevaricating over setting up a “joint mechanism” for receiving aid in Tiger-controlled areas. Grassroots co-operation has ensured that relief supplies have got through. But the Tigers, shunned by many foreign governments, cannot get the aid directly, rendering bigger reconstruction projects difficult.

The needs are huge. The tsunami killed more than 31,000 Sri Lankans. It affected two-thirds of

the coastline, destroying 99,000 houses and displacing 443,000 people. It damaged 168 schools and 92 clinics, hospitals and pharmacies and wrecked two-thirds of the fishing fleet. The north-east, already war-ravaged, with 40,000 people displaced by the fighting and in camps, was especially badly hit.

A study published by the World Bank and other agencies this month estimated that recovering from the disaster would require about $1.5 billion in external aid, two-thirds of it in the north and east. The money might even be available, so lavish has been the international response.

The disaster thus promises the Tigers massive foreign aid and brings de facto recognition tantalisingly close, raising the price of renewed conflict. It has also dented the Tigers' military capability. Some in the government are confident the Tigers cannot go back to war for several months. The communities they would need to mobilise have been devastated.

In theory, the Tigers and the government agree on the need for a joint relief mechanism, and on treating it as a separate issue from the peace process. Optimists see it as a potential platform to build mutual trust. But the government of Chandrika Kumaratunga, Sri Lanka's president, is split on the issue. Her party rules in coalition with the Janatha Vimukthi Peramuna (JVP), which preaches a blend of Marxist economics and Sinhalese chauvinism. The JVP opposes any concession to the Tigers, and the president cannot rule without its support. In particular, she would need it to amend the constitution to ensure she need not retire when her presidential term is up.

Not only is the relief effort failing to heal wounds: it is opening new ones. The Muslim minority, for example, some 8% of the population, feels badly discriminated against in the distribution of aid. Politicians across the country are scrambling to gain kudos from the influx of money and supplies. The government claims that some two-thirds is going to the north-east. But officials at the Tamils Rehabilitation Organisation, a Tiger-backed charity, claim the region receives only one-third.

Even many not directly affected by the tsunami are feeling disadvantaged—such as those displaced for years, not by an act of God, but by an all-too-human war.

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After the tsunami (2)

Too slow in Aceh

Feb 24th 2005 | BANDA ACEH
From The Economist print edition

Big decisions await blueprint day

Get article background

THE Indonesian government has declared the post-tsunami emergency relief operation in Aceh to be over. In a sense it is right. Many people are short of food, but practically no one is starving. It is a similar story on shelter, health care and education: the most basic needs of a devastated population are being met. The thousands of foreign troops who rushed to the province in the tidal wave's wake have either left or scaled down their presence.

There is a more grisly indicator that Aceh's emergency is waning. Though 114,000 local people remain missing (on top of the 124,000 people confirmed dead), only a few hundred fresh bodies are being recovered each day.

But this is where the good news, if you can call it that, ends. Looking beyond the emergency, the province's reconstruction is progressing in a haphazard way. Individual agencies are implementing decent enough programmes: the UN Development Programme's cash-for-work scheme, targeting 30,000 people, and the Indonesian army's effort to reopen a road along the devastated west coast, are good examples. But the government has not yet got a strategy to co-ordinate these efforts.

The government claims that a strategy is on the way. But the publication date for the reconstruction blueprint is March 26th. If achieved, that would be commendable. But it inevitably seems a long time away to people who have lost everything. Officials in Aceh admit they are reluctant to take badly needed decisions—such as how far back from the shore rebuilding can start—until the plan is published. And the chances are high that the blueprint will suffer from a lack of public consultation.

Jusuf Kalla, Indonesia's vice-president, confirmed to *The Economist* that the central government has no plans to consult with anybody beyond the elite ranks of politicians, academics and religious leaders. Some 100 civil-society organisations are putting forward grassroots views, but it is uncertain whether they will be heard.

The local government is trying to be more inclusive, but is hampered by the loss of so many staff and records. In any case, its capabilities are limited. The army was in de facto control of the area for the 18 months prior to the disaster as it sought to crush the 29-year-old secessionist rebellion of the Free Aceh Movement (GAM).

Because of such factors, the response to government initiatives has been mixed. The movement of tens of thousands of refugees to hurriedly built barracks is particularly controversial. While many of the refugees accept that such shelter—12-room huts with electricity and adjoining bathroom

blocks—is vastly preferable to tents, most of them would like to rebuild on the site of their old homes or to be free to choose somewhere else.

In fact, many Acehnese are doing just that. Refusing to wait patiently for March 26th, they have started, with the help of their families and the 200-plus non-governmental organisations present in Aceh, to rebuild their houses (regardless of conflicting rumours on exclusion-zones), to open micro-enterprises and to tend what land they can. What will happen once the blueprint is published remains uncertain.

Overshadowing all this is the smouldering armed conflict. This week, representatives of the government and GAM met for a second round of post-tsunami peace talks in Helsinki. Both sides say that some tentative progress has been made towards an agreement. Ceasefires have been declared and broken before, so optimism is inevitably guarded. But everybody agrees that sustainable reconstruction depends on peace breaking out.

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Kirgizstan

Forward on the yellow

Feb 24th 2005 | BISHKEK
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Will this weekend's election bring change?

Reuters

Yellow revolutionaries?

AFTER the “rose” revolution in Georgia and the “orange” revolution in Ukraine, Kirgizstan appears to be just about ripe for its own (possibly yellow) peaceful revolt. The parliamentary election on February 27th will provide a pointer to the presidential election due in October. President Askar Akayev—who has held office since 1990, the year before Kirgizstan declared its independence from the Soviet Union—has to stand down this year. But if he can stack parliament in his favour (several of his friends and relatives, including two of his children, are competing for its 75 seats) he may be able to bring about the constitutional change that would allow him to run for another term.

The democratic opposition naturally wants to prevent this from happening. “Everybody is tired [of the authoritarian president],” says Edil Baisalov, head of an NGO called Coalition for Democracy and Civil Society. Loyalty to Mr Akayev is at a very low level, he says, pointing out that the factors that played a part in the uprisings in Ukraine and in Georgia are now present in Kirgizstan.

One of these factors is an exponential increase in corruption since independence. People close to Mr Akayev are often said to be at the heart of this. Businessmen running small and medium-sized companies complain that as soon as they start making a handsome profit they are often forced to sell part or all of their businesses to such rogues. The few big companies operating in Kirgizstan, it is alleged, they own already.

The other main factor is poverty, which is widespread but particularly bad in the south. At least 500,000 of Kirgizstan's nearly 6m people have been forced to seek work in Russia or in neighbouring Kazakhstan; a few thousand of them are said to be sweeping the streets of Moscow.

The present government has tried to improve the economy, and the economic indicators are positive. But the country has no big natural resources aside from water—40% of all Central Asian water originates in Kirgizstan's mountains—and it is too small a market and too remote a place geographically to accrue much advantage from foreign trade.

Mr Akayev has repeatedly declared in public that he will, as required, step down in October. If this happens, it would make him the first post-Soviet Central Asian president to leave voluntarily. But losing power would also mean losing his business interests. Carrying on might be the safest route—at least until his daughter Bermet, now aged 32, turns 35 and can run for president herself.

But will the votes go the president's way? Many voters are thoroughly enjoying themselves in the pre-election period. The campaign seems to be largely about what candidates will do to win them over: supplying coal, flour, alcohol or money, for instance, or promising to build a road or a bridge. Well-off businessmen have an obvious advantage—and are also preferred by the authorities since their fear of the tax police makes them more controllable parliamentarians.

On the other hand, *MSN*, an independent newspaper, provides advice to students who may come under pressure from their professors to vote for Ms Akayeva. If any voters are given ballots marked in advance in her favour, it says, they should check another box as well to render their vote invalid.

This week's deregistration of some opposition candidates drew large protests in three of the country's seven regions. But the protests are local, not national. Whether they turn into anything bigger depends on what the opposition does and how the authorities reply. An incident in 2002, when six demonstrators were killed by the police, caused a big political crisis.

The opposition consists of five political-party blocks, which formally united under an agreement signed in December. But it still seems fragmented. The opposition cannot even agree on a colour: yellow, orange and pink have all been chosen. Roza Otunbayea, leader of the Ata-Jurt (Fatherland) movement, who was denied registration as a candidate, insists that yellow is the colour: it means ready for change, she says, as in a traffic light.

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Indian oil and gas

Aiyar's dream

Feb 24th 2005 | DELHI
From The Economist print edition

Pipelines promise to bring energy and, perhaps, unity

Get article background

WHEN Mani Shankar Aiyar, an ebullient diplomat turned politician, was made India's oil minister nine months ago, he was told that it was no more than a “temporary charge” and that he could return to his main interests—village-level government and tribal affairs—once a suitable candidate became available. But this has not happened. Instead, Mr Aiyar is transforming a government department better known for the illicit allocation of petrol-pump licences to politicians' families and friends into a significant player on the international stage.

In mid-February Mr Aiyar floated his dream of an Asian gas grid to an international gas-users conference. He then went to Moscow, seeking investment in India's oil and gas. Earlier this month the Indian cabinet told him to start talks on bringing natural gas from Iran, Myanmar and Turkmenistan. In January, he was host at an inaugural 12-nation conference, which gathered Asian energy-users, including China and Korea, and Middle Eastern suppliers, such as Kuwait and Saudi Arabia.

His aim is to secure foreign energy supplies to fuel economic growth of 7-8% or more. By 2020, India's oil imports are expected to rise from 70% to 85% of consumption. As demand for natural gas soars, substantial imports of it will also be required, even though 90% of current consumption is met from domestic output. The Oil and Natural Gas Corporation, which is spearheading the search, has invested some $5 billion over the past four years in countries that range from Russia and Iran to Vietnam and Myanmar.

In January Mr Aiyar succeeded in persuading Bangladesh, which since the late 1990s has resisted selling India gas from its 948 billion cubic metres of potential reserves, to agree in principle to become a partner in a pipeline that would bring gas from Myanmar to India. The pipeline might also pick up some Bangladeshi gas, and supplies from India's north-eastern states. Technical talks involving the three countries are expected to start during the next few weeks, though some question whether Myanmar has enough reserves to justify a pipeline; there are also worries about the political situation in Bangladesh, which could make relations with India awkward.

India already has deals with Iran for liquefied natural gas and crude oil supplies. The more adventurous project is for a 2,600km (1,625-mile) pipeline to carry Iranian natural gas across Pakistan to northern India. The idea is that the pipeline would start operating from 2011, and might later be extended to southern China. Estimated by the Australian mining group BHP Billiton to cost $4 billion, the pipeline has been talked about since the mid-1990s but was blocked by India-Pakistan hostilities. Now relations between the two rivals have improved, technical talks are starting. The fear is that American sanctions on Iran will scare off backers. America favours a pipeline that would bring gas from Turkmenistan across Afghanistan and Pakistan.

Mr Aiyar says his job is to dream: one of his dreams is that an Asian energy grid might follow the trajectory of the European Coal and Steel Community, which grew into the European Union.

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China

A little less gloom on the farm

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Now the factory managers grumble

Get article background

NEWS is rarely good for China's farmers. Years of barely rising incomes and huge tax burdens have made them an unhappy lot. Last year saw something of a recovery, to the extent that some parts of the country are reporting a fall in the numbers of rural jobless who normally flock to the cities at this time of year in search of work. But the recent surge of enthusiasm for tilling the fields will be hard to sustain.

In the southern province of Guangdong, a centre of labour-intensive manufacturing, factory managers are keen for a return to the bad old days on the farms. In response to a highly unusual shortage of labour in the province last year, officials scrapped a regulation banning factories from hiring migrant workers within a month of the lunar new year holiday, which ended last week. The ban was introduced a decade ago to prevent Guangdong from being inundated with job-seekers. But its lifting has had little obvious effect. In the first week of the new year, 7.6% fewer migrant workers arrived by train in the provincial capital Guangzhou than in the same period a year ago.

Harsh conditions have something to do with this: nearly half of all migrant workers toil 12 to 16 hours a day with no days off. But better prospects in the countryside are also a factor. Last year, farmers' incomes, helped by rising grain prices, tax reductions and an increase in subsidies for grain growers, rose 6.8%, the highest rate since 1997. This is a relief for the government, which worries that the growing developmental gap between town and country is undermining social stability. Thousands of angry rural folk have travelled to Beijing to petition the authorities. In the first quarter of 2004, the number of visits to the State Letters and Complaints Bureau surged by 95%.

A Communist Party circular, “Document Number One”, issued at the end of last year and made public in late January, spells out further measures aimed at boosting rural incomes. It requires more provinces to eliminate the 8.4% farm tax (22 out of 31 have done so in the past year). It mandates that at least 70% of any additional spending on health care and education be directed to rural areas (cities normally get the lion's share). And it calls for an increase in subsidies and greater government investment in agriculture. Specific figures are likely to be made public at the annual session of parliament, beginning on March 5th.

But these measures will not tackle the root of China's rural problem, which is that far too many people have little or nothing to do. Last year's surge in grain prices, caused by earlier bad harvests, is unlikely to be repeated this year. Grain output in 2004 rose 9% to 469.5m tons. Direct subsidies to grain growers have helped only a little, accounting for a mere 0.3% of their incomes last year. Tax and fee reductions have exacerbated the neglect of rural schools and hospitals.

The ultimate answer is to shift agricultural labour into manufacturing and services. But to achieve this, farmers need to gain control over their land, including the right to trade it. Country people need full access to urban services, such as education and health, from which they are usually barred. Policymakers are reluctant to move fast in this direction for fear of a chaotic expansion of urban areas that could overwhelm their infrastructure.

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America, Europe and Iran

Russian fuel, European carrot, American stick

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Now Russia is complicating the already tangled diplomacy over how to curb Iran's nuclear ambitions

GIVEN its proven record of cheating, who would want to sell nuclear materials to Iran? The answer, it seems, is Russia. George Bush and his Russian counterpart, Vladimir Putin, had barely managed a parting handshake this week at their summit in Slovakia, when Russian nuclear officials were due to sign a much-delayed agreement with Iran to supply low-enriched uranium fuel to the nuclear-power reactor that Russia has been completing at Bushehr. Next week the 35-nation board of the International Atomic Energy Agency (IAEA), the UN's nuclear guardian, meets for the first time in two years without having a detailed report on Iran's nuclear transgressions (though inspectors still have some big unanswered questions). Is Iran wriggling off the nuclear hook?

Britain, France and Germany, like America, say they are determined it won't. The Europeans are trying to persuade Iran to give up its dabbling with uranium and its plans for producing plutonium, either of which could be used as the fissile core for a bomb. By rights, Iran should have been reported to the UN Security Council when its multiple safeguards violations were first uncovered, as America's diplomats still argue it should be. The Europeans agreed to hold off, but only so long as Iran continues to suspend all uranium processing and enrichment work of its own.

Neither the European trio nor the Americans are thrilled to see Russia giving more nuclear assistance to Iran. Once the Bushehr reactor is up and running, the irradiated fuel rods in its core will soon be laden with bomb-usable plutonium. Though the spent fuel is to be returned to Russia,

it will first have to sit for a year or so in cooling ponds in Iran. Should push come to shove over its nuclear ambitions, the regime would have the option of doing a North Korea—pulling out of the deal with Russia and out of the Nuclear Non-Proliferation Treaty and then extracting the plutonium for a weapons programme. The hope is that Russia will be in no rush to deliver the fuel. The one consolation for the Europeans is that, with a ten-year supply of fuel for Bushehr now agreed with Russia, Iran has even less of a case for pursuing fuel technologies of its own.

Yet talks with the Europeans that began late last year on “objective guarantees” to ensure that Iran's nuclear ambitions remain peaceful, as it has always claimed them to be, have made little progress. Iranian officials insist they have a right to enrichment technology and will accept IAEA inspections to show they are not diverting uranium for military use. But the technology used for civilian power generation can just as easily be abused for bomb-making. The only objective guarantee that Iran is not breaking the rules again, as it has repeatedly in the past, say the Europeans, would be to abandon its dangerous uranium and plutonium work completely.

As enticements for giving up enrichment, they have offered Iran improved trade and political ties. The European three have also offered to send a team to Iran to explore the possibility of supplying a less proliferation-prone civilian nuclear reactor (none is proliferation-proof) in place of one Iran plans to build that would be ideally suited for plutonium-making. But the Iranians say nothing will tempt them to give up these nuclear technologies.

So will Iran eventually press on regardless? The two sides are supposed to review progress later in March. If Iran ends the suspension of its enrichment work, the Europeans have said they will support America in taking the issue to the Security Council. Iran would rather avoid that, so may be happy to see any real confrontation put off until after its presidential election in June.

Might America meanwhile lend its diplomatic weight to the Europeans' effort? Not by offering incentives of its own at this stage, though Mr Bush said this week that he backed the Europeans' efforts and his secretary of state, Condoleezza Rice, assured the Europeans that America will not get in their diplomatic way. That, says Gary Samore of the London-based International Institute for Strategic Studies, is inconsistent: America insists on diplomacy to deal with North Korea's nuclear threat, where it seems unlikely to work, yet refuses to engage with Iran, where diplomacy might stand a chance.

But the Europeans also know that America's stick—Mr Bush said this week that fears of an American attack on Iran were “ridiculous” but also that no option was off the table—helped make Iran talk. So far only Britain's foreign secretary, Jack Straw, has said publicly that using force against Iran would be “inconceivable”. Other Europeans have kept uncharacteristically silent. Iran still needs to show willing to give up its dangerous technologies for there to be a prospect of a deal that even Mr Bush would find hard to refuse.

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Israel

The barrier moves

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Israelis are set to alter their controversial fence's route

THE new wiggle of Israel's "security barrier", approved this week by Ariel Sharon's cabinet, officially bites just 7% out of the occupied West Bank, as against 16% in the original 2003 route. But the 7% does not include (largely Arab-inhabited) East Jerusalem or a sliver of "no-man's land" near Latrun, which Israel claims as its own, nor the possible fencing-in of the Jewish settlement block at Ariel.

B'Tselem, an Israeli human-rights group, argues that the barrier will still separate many Palestinians (particularly around Jerusalem) from their farmland and cut deep into the West Bank around the main Israeli settlements—in effect joining them to Israel proper while nearly dividing any future Palestinian state into enclaves. "A state on scattered territories will not work," said George Bush this week.

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The Gaza strip's economy

Lifting the shackles

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For Israel's pullout from Gaza to be successful, both sides need to work to make the strip's economy flourish afterwards

FERVENT demonstrations are a common enough sight on Gaza's streets, but there is something unusual about the crowd of young men now coming down the esplanade and turning towards the Palestinians' ruling Fatah party headquarters: not militants with headbands calling down curses on Israel, but bespectacled graduates demanding jobs. “We want Abu Mazen to do something,” says a computer scientist in his twenties who has been jobless for six years.

Mahmoud Abbas (Abu Mazen), the newly elected Palestinian president, can expect more such demands after Israel pulls its settlers and army out of the Gaza strip this summer. Over four years of *intifada*, and Israel's consequent clampdown, have hammered the Palestinian economy, once a source of cheap labour and goods to Israel. The 130,000-odd Palestinians who worked in Israel in the 1990s dwindled nearly to zero though since a peace summit at Sharm el-Sheikh two weeks ago a few thousand have been let back in.

Lengthy border checks, with trucks sometimes waiting for weeks, delay imports and strangle exports. The haulage price from Israel's Ashdod port to Gaza has quadrupled, says Alaa Eddin al-Araj of Gaza's contractors' union. The number of construction companies in the strip has fallen from 300 to 120. Private-sector investment, says Mohammed el-Samhouri, an adviser to the foreign minister of the Palestinian Authority (PA), has fallen by two-thirds. Overall, Palestinian GDP per capita has dropped by around a third, similar to America's collapse in the Great Depression, and the poverty rate has nearly doubled—even as foreign aid has roughly doubled too, to nearly $1 billion a year, the highest per capita rate in the world.

Most Israelis worry more about whether an evacuated Gaza will become a terrorist hotbed than whether it will prosper. “If their economy reaches the levels of the Depression they'll be pretty well off,” scoffed Boaz Ganor, a leading counter-terrorism expert, when the question was raised at a recent security conference on the disengagement. But Israel's government, says Nigel Roberts, the World Bank's representative to the PA, increasingly recognises that a poor Gaza could also breed even more hostility to Israel.

In a small, closed-off strip of land, with a population of 1.3m that will nearly double by 2020, what sort of economy can there be? Many of Gaza's orange groves have been razed by Israeli bulldozers on security operations; its exporters, shorn of a market, have collapsed; it suffers from high (ie, Israeli) costs compared to other Arab countries, a shattered infrastructure and a flimsy legal system. Its main advantage, argued a series of World Bank reports last year, was its economic ties to Israel.

How to give Gaza a working economy

World Bank recommendations	Israel's position
Speed up checks at crossings, improve technology	Yes, but disputes over timing and resources
Abolish unloading and reloading of goods at Israeli-Palestinian borders	Probably not: problems of implementation
Re-open Gaza airport	Not yet decided
Build Gaza seaport	Yes: foreign donors will pay
Make Gaza-Ashdod rail link	Yes, but who'll pay?
Make Gaza-West Bank rail link	Maybe: depends on security – and who'll pay?
Restore at least 38,000 permits for Gazans in Israel	Restore 35,000, but reduce to zero by 2008
Dismantle West Bank internal checkpoints	Depends on PA's security performance
Let Israeli firms stay in border industrial zones	Keep them out
Maintain a quasi-customs union for now	Abolish it by the end of 2006
Transfer Jewish settlement infrastructure and houses to PA	Probably, but disputes over compensation

Source: *The Economist*

The Bank has a list of recommendations (see our table), above all to free the movement of people and goods. Israel has made concessions. But it still wants to keep the two economies as separate as possible. The Bank says that even with the concessions, if Palestinian work permits are abolished by 2008 and the West Bank barrier (see article), now nearly two-thirds complete, shuts out the estimated 20,000 illegal workers, then the economy will still shrink another 9% by 2008. Israel says it is willing to explore all avenues—Shimon Peres, the veteran Labour leader, who has been overseeing the economic side of the pullout since becoming deputy prime minister last month, has been abuzz with ideas—but that its security must come first.

Mr Abbas has been falling over himself to satisfy Israeli security hawks. But he will have to do more than that. He at first shied away from co-ordinating the Gaza pullout with Israel because it was not part of an overall peace deal, so the first discussions have only just been held; Israel, says one official, is waiting for the PA to appoint its representatives to a set of joint working groups. Palestinian political wrangles over a new cabinet have held things up too. Reforms in the PA, which a conference in London next week will discuss, will be crucial. Moreover, Mr Abbas has spent most of his negotiating energy so far on getting prisoner releases—symbolically important, and necessary for his relations with militant groups. But, says Salah Abdel Shafi, an economic analyst in Gaza, "freedom of movement is probably the most important thing for the people."

Mr Abdel Shafi also says that the World Bank overemphasises Gaza's ties to Israel's economy. The Palestinians have free-trade agreements with the EU, the United States, Canada and Australia. However ropey it is now, if Gaza gets the necessary transport links and sped-up border controls, and if the mountains of donor money start going into investment projects rather than just humanitarian aid and trimming budget deficits, then the supporters of Palestinian independence worldwide would surely shell out for a new marketing campaign: "Buy Gazan".

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Zimbabwe

Mugabe's bogus ballot

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From The Economist print edition

The ruling party prepares to steal another election

Get article background

AP

Might as well start celebrating now

ROBERT MUGABE, Zimbabwe's cricket-loving president, celebrated his 81st birthday last weekend. He took the opportunity, amid state-funded festivities, to dismiss his opponents as stooges of Britain's prime minister, Tony Blair, and to predict that his party, ZANU-PF, would scoop two-thirds of the seats at a parliamentary election on March 31st. Given that half his people depend on food aid, this might seem rashly optimistic. But Mr Mugabe has a knack of winning elections regardless of the wishes of voters.

At the last parliamentary poll, in 2000, a new opposition party, the Movement for Democratic Change (MDC), won about half of the vote despite widespread fraud and intimidation in ZANU's favour. But thanks to gerrymandering and Mr Mugabe's power to name a fifth of MPs, it ended up with only 57 seats out of 150. The MDC filed 37 lawsuits to overturn the results from constituencies where the rigging was most blatant, but none of these challenges has yet reached a final judgment, and in a month they will be moot.

Since 2000, which was the first time Mr Mugabe faced a serious electoral threat, he has sharpened his rigging tools. At a presidential election in 2002, he broke enough heads and stuffed enough ballot-boxes to ensure victory, but still somehow managed to persuade many of his fellow African presidents, including, crucially, South Africa's Thabo Mbeki, that the vote was legitimate. Next month, he looks set to repeat that triumph.

The voters' roll is thought to list large numbers of dead people, and the names of many ZANU supporters are thought to appear more than once. It is hard to check, though, because officials will not make the entire roll public.

The MDC is finding it hard to campaign. Last week, police arrested Ian Makone, its electoral chief, for organising an “illegal gathering” in Harare, the capital. That is, he was meeting the party's 120 candidates. This week, three MDC candidates were beaten up by soldiers while travelling from their constituencies. Since Mr Mugabe has recruited and trained a youth militia to flog and torture dissidents, there are large areas of the country where MDC activists fear to tread. Most MDC members of parliament have been arrested or assaulted at some point in the past five years.

The ruling party controls all broadcast media, and critical print journalism is all but banned. Three of the last Zimbabwean journalists writing for foreign outlets were hounded out of the country last week. Election observers from countries that harp on about democracy, such as Britain and America, are banned. Few Zimbabweans will be allowed to monitor the polls, either. Responsibility for organising the election rests with a commission whose members Mr Mugabe appoints.

Many, perhaps millions of would-be MDC voters have moved abroad in search of jobs, food or freedom. They will not be allowed to vote, unless they work for the Zimbabwean government. Those who remain, often the old and the very young, are easier to intimidate or bribe with hand-outs of maize flour. Civil-rights groups that receive foreign funding may not dabble in politics by, for example, teaching people that the ballot ought to be secret.

ZANU is far from united: several of Mr Mugabe's lieutenants are jostling to succeed him when he eventually leaves office. But with an election near, they are mostly shrewd enough to pull together to keep out the MDC, and Mr Mugabe is quick to crush any crony who gets above himself.

At the weekend, for example, he sacked his information minister, Jonathan Moyo, the man responsible for criminalising honest journalism in Zimbabwe. He had also impressed Mr Mugabe with his ability to invent and broadcast conspiracies involving the MDC, the British government and white homosexuals bent on bringing back colonial rule. He was fêted, in ZANU circles, for his hilarious puns linking Tony Blair with a local make of toilet. But then he made the mistake of opposing Mr Mugabe's choice of vice-president, so Mr Mugabe flushed him away.

Zimbabwe's neighbours are preparing to applaud another ZANU “victory”. The Southern African Development Community (SADC), the main regional block, has drawn up a list of democratic standards that Zimbabwe must obey or face its neighbours' displeasure. The MDC worries that the election will flunk most of them but that SADC will do no more than tut.

Last week, Tanzania's President Benjamin Mkapa denied that Zimbabwe was ill-governed, blamed the MDC for the “trouble” there and suggested that westerners only criticise Mr Mugabe because he has seized white-owned land and given it to blacks. South Africa's Mr Mbeki, meanwhile, in an interview with the *Financial Times*, admitted that some of Mr Mugabe's policies were “incorrect”. But he repeated the ludicrous canard that Zimbabwe's present conflict is between blacks and whites. In fact, it is between a large black majority who want a fair election, and a small, predatory minority who wish to deny them one.

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George Bush in Europe

Into the lions' den

Feb 24th 2005 | BRUSSELS, MAINZ AND BRATISLAVA
From The Economist print edition

AP

Widely different expectations of the transatlantic partnership were on display during the American president's visit to Europe

Get article background

GEORGE BUSH had one chief aim on his trip to Europe: to find out if his European allies would help with security challenges in Iraq, Iran and beyond. But to do it, he first had to change the mood, from unilateral to co-operative. At Mainz, in 1989, his father had declared America and Germany to be “partners in leadership”. In Brussels, 16 years on, the son did not go so far. But by talking of a “new era of transatlantic unity” and by visiting the top two institutions in the European Union (the European Commission and the Council of Ministers), Mr Bush became the first president to be seen taking the EU, as opposed to NATO or individual countries, seriously as a negotiating partner.

His visits to the commission and council were a recognition of the EU's growing influence in foreign policy. They also reflected changes within the administration. In his first term, Mr Bush's team was more interested in Europe's divisions than its unity. His speech in Brussels will have given little comfort to neo-conservatives who believe that further European integration may be bad for America.

Yet the Bush charm offensive was met with, at best, a nuanced response. France's Jacques Chirac, whom Mr Bush hosted to an elaborate dinner (lobsters and Bollinger), thanked the American president for his “concern to demonstrate his attachment to our alliance”—as if Mr Bush had wandered off the reservation. Mr Chirac then suggested, at a time when Americans have been

sceptical about Europe's diplomacy in Iran, that it was time to consider offering Iran membership of the World Trade Organisation. Stephen Hadley, America's national security adviser, said Mr Bush would “think about” Europe's Iranian policy.

The German chancellor, Gerhard Schröder, whom Mr Bush met on February 23rd at a summit in Mainz, also stood by his recent assertion that NATO was no longer the premier forum for transatlantic debate—a view with which the president flatly disagrees (see article). It is true that, for the first time in three years, the NATO summit in Brussels was not dominated by bickering about Iraq, shifting from “were we justified?” to “how can we help?” But the help on offer was only symbolic. Every NATO member has agreed to cough up something to a training mission, which the Americans trumpeted as a triumph. But the money is pitiful ($4m)—and France is seconding only one officer.

Mr Bush thus comes away from the trip with only modest help for his immediate priorities. But he also wanted to test how far the transatlantic alliance, and in particular the EU, could help with three broader challenges that America frets most about over the next 20 years: the democratisation of the Middle East, the growth of China and, to a lesser extent, developments in Russia.

The two sides have reasons of their own for talking up the alliance's continued value. If democracy is the best guarantor of global security, say the Americans, they can hardly be at odds with the EU, which has done most to secure it in central and eastern Europe. Europeans insist the EU will be a more stable partner than any individual country (Britain, perhaps, excepted). Both sides know that of three recent “crises of democracy”—Afghanistan, Iraq and Ukraine—the two that came out best were those where they co-operated.

At the broad strategic level, however, the Bush visit produced at best mixed results. American disappointments over Iraq and Iran were mitigated by continued co-operation with France over Syria, and by an expansion of NATO's peacekeeping mission in Afghanistan. But the administration remains unpersuaded that the EU will be much help in democratising the Middle East, where European governments worry more about stability than freedom. One day, the EU might influence Russia, perhaps the biggest backslider from democracy. But for now, nobody can do much beyond scolding Vladimir Putin, whom Mr Bush met in Bratislava on February 24th (see article).

By far the biggest strategic worry for America, though, is China, and particularly the EU's determination to lift its arms embargo this summer. The administration might accept a deal under which the embargo is ended in exchange for tight controls on technology exports (though Mr Bush was sceptical). But he added that it was up to the EU to persuade Congress of the merit of such a deal. Opposition on Capitol Hill is fierce: the House of Representatives condemned the lifting of the embargo by 411 votes to three. Richard Lugar, chairman of the Senate foreign-relations committee, has threatened to respond by restricting military exports to Europe. The Americans also disapprove of the Europeans' covert rivalry over how many dollars and euros the Chinese central bank should hold. It all suggests to some Americans that the EU could be a rival, not an ally, in East Asia.

Two views from the bridge

In the European view, Mr Bush's trip was a manifestation of failure. In an interview with the *International Herald Tribune* on the eve of the visit, Javier Solana, the EU's foreign-policy supremo, said the elections in Iraq were “not a vindication”. Europeans think Mr Bush is paying the price of arrogance, has lost international respectability and is now begging for a second chance. For them, European integration is the central concern, and international consequences flow from it. As Mr Chirac said, a “more united Europe plainly implies a stronger, more effective

Atlantic alliance."

The Americans, in contrast, see the Bush trip as a product of success. Elections in Iraq have vindicated the invasion; the possibility of peace between Israel and Palestine now vindicates the entire Middle East strategy. They feel their European critics have marginalised themselves, and are now being given a second chance to board the freedom train. For America, the transatlantic relationship is essentially a means to that end. As Mr Bush put it in Brussels, "America supports a strong Europe because we need a strong partner in the hard work of advancing freedom in the world."

In short, Europeans think Mr Bush was wrong, wants to recoup lost ground and now realises he needs the EU. Mr Bush thinks he was right, wants to advance his agenda and is generously willing to let the Europeans come along. This is not to deny that this week marked a step to better management of the transatlantic alliance. But the Americans want it because they hope the two sides share long-term interests. The Europeans want it because they fear that those interests may be diverging.

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Arms exports to China

A $15 billion boom?

Feb 24th 2005
From The Economist print edition

Why France and Germany want to sell China more weapons

Get article background

RUSSIA is the biggest supplier of arms to China. But, despite their arms embargoes, America and Europe have a fair slice of the business too: some 6.7% of Chinese arms imports come from America and 2.7% from Europe, according to Dieter Dettke of the Friedrich Ebert Foundation. American Humvees roll off production lines in China for the People's Liberation Army. Chinese officers flit around in helicopters made by Eurocopter, part of EADS, Europe's biggest defence group. The Chinese navy has ships powered by German and French diesel-engines, and a stealth frigate, made with French technology, that looks quite like those sold to Taiwan by the defence company now called Thales. Rolls-Royce engines power the Chinese JH-&A fighter-bomber plane, says Richard Fisher of the International Assessment and Strategy Centre.

There is, in short, plenty of western weaponry in China, showing that the arms embargo is far from watertight now. But the storm over the EU's desire to lift the embargo is not about helicopters and Humvees, or even jet engines. The concern is that European defence firms, mostly shut out of America's arms market, will offer China more sophisticated equipment in a market that may soon be worth $15 billion a year, about a tenth of the Pentagon's annual spending on new equipment. The Chinese are interested in French Mirage and Rafale fighters, which struggle against American competition in other export markets, and in Germany's Leopard tanks. Britain's BAE Systems, Europe's other big defence firm, has no plans to sell to China: it makes ships and planes that the Chinese can get from Russia, and it also has a big interest in not upsetting the Americans, because of its business there.

But the real cause of American anxiety, according to one expert, is the soft stuff: the expertise that allows armed forces to be integrated for today's increasingly digital warfare. This includes communications gear, hardened computer networks and night-vision cameras that can turn helicopters into 24-hour killing machines. If the embargo goes, European arms makers will be bound only by a vague code of conduct, though they promise to tighten it. The code talks of respecting human rights and not selling weapons that might be used for repression or have a “clear risk” of being wielded aggressively against another country. That hardly sounds watertight—and it will be interpreted by national governments, not at EU level.

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Russia and America

From Brussels without love

Feb 24th 2005 | MOSCOW
From The Economist print edition

A first test of the liberty-spreading policy—or first exception?

AP

I can't see your soul any more...

THE suitors had similar backgrounds: both came from big, patriotic countries, with a sense of destiny and a tendency to paranoia. Both were political ingénues. When George Bush and Vladimir Putin first met in 2001, they immediately hit it off; Mr Bush famously got a feel for Mr Putin's soul. Their compatibility was sealed when Mr Putin backed Mr Bush's "war on terror" in late 2001. Yet when they met in Slovakia on February 24th, as *The Economist* went to press, what had seemed a love-match looked more of a fling. A few days before, Mr Bush had bad-mouthed his erstwhile ally, saying that America and Europe must put "democratic reform at the heart of our dialogue with Russia."

The two countries bickered over the invasion of Iraq. The Bush administration expressed concern about the Russian parliamentary elections of December 2003, and the political "reforms" Mr Putin made last year. Still, as a former American ambassador in Moscow once said, "concern is not a policy". What has pushed Mr Bush from concern towards something that is looking more robust?

It is not Mr Putin's supposed plan to help Iran with its nuclear programme. The Americans say the Iranians are trying to build a nuke; the Russians say they aren't; but both agree that they shouldn't. The tipping point seems rather to have been Mr Putin's meddling in Ukraine. That persuaded the Americans that they could no longer segregate Russia's internal politics from efforts to work with it abroad.

Mr Putin has his own reasons to feel let down. He swallowed the dispatch of American troops to Central Asia, and the eastward expansion of NATO. He went to the trouble of more or less endorsing Mr Bush last November. What has he got in return? Humiliation over Iraq; what he sees as American meddling in Ukraine; plus meddling in his dismemberment of Yukos, an oil company. (A court in Houston was this week due to rule whether Yukos could legitimately file for bankruptcy there.)

Both men are disillusioned over what was supposed to be their tightest bond: terrorism. They agreed this week to co-operate more to combat nuclear terrorism. Yet the Americans complain that the Russians focus only on their domestic problems, and dismiss concerns about Iran and Syria. Meanwhile, the Russians are fed up with outside criticism over Chechnya.

European leaders' past efforts to ingratiate themselves with Mr Putin also annoyed the Americans. After Ukraine, according to one American official, there is "less daylight" between the European

and American positions. But the challenge for Mr Bush, if he really wants to democratise Russia along with other, perhaps more pliable countries, is not just to make the Europeans match his words, but to find a way to turn his own words into action.

Ask a western diplomat about how to cajole Russia, and he invariably shrugs and mutters something about “soft power”. Some American congressmen want to expel Russia from the G8, or hold its membership of the World Trade Organisation hostage. But the West wants Russia in the WTO; and chucking Mr Putin out of the G8, even if it were feasible, would only remove a chance to influence him.

Nor is Mr Bush (or anyone else) strident to Mr Putin's face. Banging on about Russia's retreat from democracy provokes diatribes about double standards. The Russians think so-called “win-win” solutions to international problems are really double wins for the West. Similarly, they see democracy lectures as disguised efforts to extract concessions, or propaganda paid for by aggrieved oligarchs. As Vyacheslav Nikonov, a Kremlin-connected analyst, puts it, “if you put all these democracy issues at the centre of the relationship, then there will be no relationship.”

Yet Mr Bush may not be too distressed by Mr Putin's imperviousness. Russia can be useful or obstructive to America on terrorism, counter-proliferation and energy security, but it is not his top, nor perhaps even tenth, priority. Unless, of course, he is serious about these democracy issues.

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The European Union constitution

Vote early, vote often

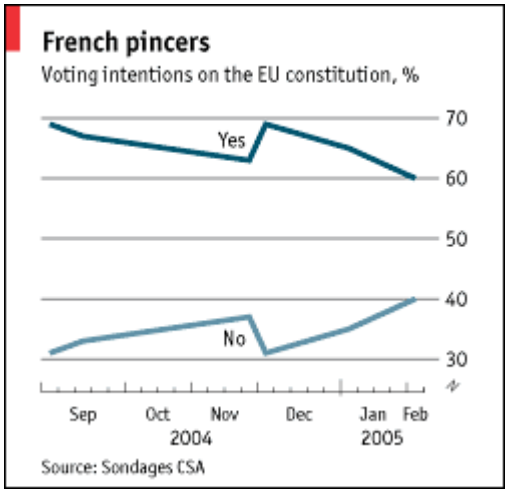
Feb 24th 2005 | BRUSSELS
From The Economist print edition

Spain says yes, but much tougher referendums lie ahead

Get article background

THE race to ratify the European Union constitution is like a steeplechase in which the hurdles become progressively higher and more intimidating. All 25 EU countries must ratify the constitutional treaty for it to come into effect. Most will do it by parliamentary vote (three have already done so); but no fewer than ten have pledged to consult their voters direct. On February 20th the treaty cleared its first and lowest referendum hurdle, when the fiercely pro-European Spanish voted in favour by 77%. Naysayers pointed to the low turnout of only 42%. But it could be argued that it was a surprise so many Spaniards were prepared to take part in a vote which was a foregone conclusion.

Valéry Giscard d'Estaing, the former French president who chaired the convention that drafted the constitution, said the Spaniards had "shown the way to the other peoples of Europe." French politicians must certainly be praying that their own people follow the Spanish lead. President Jacques Chirac is showing signs of alarm as the polls narrow. Since September, when a CSA poll showed 69% for the constitution and 31% against, the gap has narrowed to 60:40 (see chart). Everybody recalls a similar narrowing before the vote on the Maastricht treaty in 1992, which eventually squeaked past by 51:49. The government first talked of having the referendum in the autumn, then moved it to before the summer, and now seems poised to hold it in May. Most analysts see this acceleration of the timetable as a bid to stop the no campaign gaining steam as it capitalises on a variety of sentiments, from the unpopularity of the government to hostility to Turkish entry into the EU.



It is widely held that a French no would kill the constitution outright. But even if the French vote in favour, the constitution's partisans will not be able to relax. The Dutch have announced that they will vote on June 1st. Like France, the Netherlands would once have been regarded as reliably pro-European. Both countries were founder members of the European project. But the Dutch are also now showing signs of Euroscepticism, not least because they contribute more per head to the EU budget than anyone else. It is no coincidence that the Dutch government is scheduling the vote just before an EU summit that is supposed to be discussing the EU's future finances.

Even if the constitution clears these French and Dutch hurdles, larger and still more daunting barriers lie ahead. Among them are Poland, where any referendum would be invalid if turnout

were below 50%; the Czechs, whose president is “100% against” the constitution; the Danes and Irish, each of whom has rejected a European treaty in the past; and, probably last in the queue, the most Eurosceptic country of all, Britain, which may not vote until the spring or summer of 2006.

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Portuguese elections

Socratic dialogue

Feb 24th 2005 | LISBON
From The Economist print edition

A landslide for the left, but plenty of economic problems loom ahead

IT SHOULD have been a night to celebrate. Portugal's centre-left Socialists won a historic victory in the election on February 20th. For the first time since the overthrow of the dictatorship in 1974, the party took more than half the seats in parliament. But even as the win became a landslide, Lisbon stayed strangely quiet.

José Sócrates, the Socialists' new leader, tried to instil some passion by shouting “We did it! We did it!” in his victory speech. Yet the turnout (65%), the highest in ten years, and the big swing to the left were less a vote of confidence in the Socialists than a rejection of the centre-right government. Nobody did more for the left than Pedro Santana Lopes, the former mayor of Lisbon who took over as prime minister last July, when José Manuel Barroso stepped down to become European Commission president.

His government proved so erratic, blunder-prone and media-obsessed that, after only four months, Jorge Sampaio, Portugal's Socialist president, took the unusual step of dissolving parliament and calling elections a year early. His decision has been vindicated by a result that should ensure four years of stable government. Some of the blame should go to Mr Barroso. His centre-right Social Democrats were torn apart by his choice of successor, helping to push them towards their biggest-ever defeat. Not only did the Socialists win an absolute majority, with 45% of the vote, but the left swept up 60%, with hardline Communists and a group of former Trotskyites and Maoists winning close to 15% among them. “Barroso is not innocent in this crisis,” said Angelo Correia, a top Social Democrat. “He fled the country for a position that is highly prestigious for Portugal, but he left a mess behind.”

The muted response to the victory also reflects the serious tasks facing Mr Sócrates. Unemployment is at a six-year high of 7.1%, and the economy is just emerging from the worst recession in Europe. Productivity is less than two-thirds of the EU average and a bloated public sector soaks up the equivalent of 15% of GDP in wages. Inspired by what he calls “Nordic social democracy”, Mr Sócrates wants to copy the success of Finland and Ireland. By doubling state investment in research, paying for science and management graduates to work in companies and more teaching of English in primary schools, he promises a “technological shock” to create up to 150,000 jobs in four years.

He also wants spending on this plan to be exempt from the euro-area's stability-pact limits on the budget deficit, arguing that the pact should allow such “healthy investment”. Under an earlier Socialist government, in which Mr Sócrates served as environment minister, uncontrolled spending led to the first official breach of the pact, ushering in two years of austerity under Mr Barroso. Economists hope that the vagueness of Mr Sócrates's programme will let him this time make spending cuts to offset his spending promises, even if he did not spell this out to voters.

French films

Subsidy wars

Feb 24th 2005 | PARIS
From The Economist print edition

Should French film subsidies go to foreigners?

IN A riot of crushed velvet and black taffeta, the stars of French cinema will gather this weekend for the César awards. But behind the self-congratulation is a backstage row over opening France's film subsidies to foreign producers. This year's most-nominated film, “Un Long Dimanche de Fiançailles” (“A Very Long Engagement”), has rocked the industry: it was made by that icon of Hollywood, Warner Brothers.

Last year, a Paris court ruled that this first-world-war love story—a collaboration between the director (Jean-Pierre Jeunet) and star (Audrey Tautou) of an earlier hit, “Amélie”—was not French enough to get state subsidies, despite being accredited by France's Centre National de la Cinématographie (CNC). A group of rival producers, including Gaumont and Pathé, brought the case, arguing that the film's “French” production company was nothing of the sort: it was controlled by Warner Brothers through a minority stake, and run by the boss of Warner Brothers France.

The case exposes contradictions in France's film policy. The film was French enough for the Césars, for which it could hardly be classed as foreign. It is up against other 2004 French hits, including “Les Choristes”, France's Oscar entry. The film employed hundreds of French technicians, extras and actors, and was shot in French. *Variety*, Hollywood's trade paper, declared that “the result is French to the tips of its widescreen celluloid toes. There have been no visible concessions to Hollywood-style thinking.” Given American movie-goers' resistance to anything foreign, Warner took a big risk. Screened in America with subtitles, the film has taken a tiny $6m there.

The French culture minister, Renaud Donnedieu de Vabres, has now asked the CNC to come up with changes to the subsidy law to encourage foreign finance while protecting French jobs and artistic integrity. Independent producers are enraged. They fear that Hollywood might empty the pot for everybody else, and also fret over the crude commercialisation of a delicate art. The CNC has €522m ($682m) to spend in 2005, almost half of it earmarked for cinema. Such subsidies help to make about 200 French films a year, twice as many as Britain.

Whether the French want to watch them is another matter. In 2004, fully 47% of tickets sold in France were for American movies, only 38% for French ones. Four of the top five box-office films were Hollywood blockbusters. For an industry grumbling about American domination, the backlash against “Un Long Dimanche”, says one insider, is “shooting themselves in the foot”. Hollywood invests in a French product, and is thanked with scorn. American imperialism? Or propagation of French culture?

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German politics

Saved by the Danes

Feb 24th 2005 | BERLIN
From The Economist print edition

Searching for answers to the Schleswig-Holstein question

Get article background

IT WAS like Florida all over again, only instead of counting dimpled chads, they counted Danes. If another 745 citizens (of 1.5m) had voted for the opposition in Schleswig-Holstein on February 20th, the centre-left coalition would have lost power in the state, which shares a border with Denmark. As it is, the Social Democrats (SPD) and Greens are likely to stay in office thanks only to a Danish minority party that did not need to pass the 5% threshold for seats in parliament (negotiations continued through the week).

Even if the SPD and the Greens remain, the impact on German politics will be big. The winners were the Christian Democrats (CDU) and their boss, Angela Merkel. They were expected to do badly, because of weak local party leadership and a popular SPD premier. Yet their near-victory demonstrates that the CDU can win, even if it lacks a charismatic candidate, if it stops infighting and focuses on campaigning. Talk of replacing Ms Merkel will now die down, at least for the time being.

All this is bad for Chancellor Gerhard Schröder. After a comeback in the polls, his plan was to win in Schleswig-Holstein and in North Rhine-Westphalia on May 22nd—and then charm his way to re-election in September 2006. But exit polls in Schleswig-Holstein suggest that voters care about policy as much as personality, and especially about unemployment and budget deficits (both high in the state). This has triggered new debate in the government about getting the economy going and whether to bring in further reforms.

Mr Schröder was not the only loser. The poor performance of the Free Democratic Party (FDP) worried its would-be Christian Democratic allies. The Greens also did badly, perhaps because of the visa scandal that has embroiled Joschka Fischer, Germany's Green foreign minister. At least the neo-Nazi National Democratic Party (NPD) failed to reach 2%, which may calm fears about the danger the party represents. There has been recent talk about whether to ban it, or at least some of its rallies.

All eyes will now be on North Rhine-Westphalia, Germany's most populous state. In a way, the situation is similar to Schleswig-Holstein. A popular SPD premier is standing against a weak opposition leader, and both unemployment and the budget deficit are at record levels. Polls show the two sides level, with perhaps a slight advantage for the opposition (no Danes to save the day). The outcome will probably be decided by the performance of the Greens, which is why the pressure is on Mr Fischer to give evidence on the visa scandal soon, to get it out of the headlines.

If the red-green coalition loses North Rhine-Westphalia, a Social Democrat heartland, it would be a bitter blow to Mr Schröder. But it may not end his chances of re-election. Germany is evenly

divided politically. Which side wins in 2006 will depend in part on whether and how far the recent labour-market reforms, known as Hartz IV, manage to cut unemployment. Even then, the former communists (PDS) and the NPD might be able to muster enough votes to force the CDU and SPD into a “grand coalition”, something which has not been tried since 1966-69.

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Cyprus

Shadowed northern lights

Feb 24th 2005 | NICOSIA
From The Economist print edition

An election victory for moderation in north Cyprus, but still dismayingly little progress towards reunification

Reuters

Flagging faith in Europe's promises

Get article background

EVEN as the partition line through Cyprus becomes a little bit more porous, the two parts of the island feel, politically at least, like different planets. That sense cast a shadow over the victory in the parliamentary election on February 20th of Mehmet Ali Talat, prime minister of the Turkish-controlled north and a keen advocate of reunification.

On his side of the line, a recent visit by a small group of American business executives on a junket backed by the American government was seen as a small but welcome move by the United States to keep its promise to ease the isolation of the Turkish-Cypriots. The 160,000 or so residents of northern Cyprus will not, in practice, make much difference to corporate America; yet the visit outraged the Greek-Cypriots in the south who run the island's internationally recognised government. George Lillikas, the finance minister, even floated the idea of a boycott of American goods—before being countermanded by his cooler-headed colleagues.

Turkish-Cypriots say that this trade visit was a bigger morale boost than anything the European Union has done for them. The EU's inaction is all the more galling given that Turkish-Cypriots voted yes last April to a plan that would have reunited the island as an EU member—while Greek-Cypriots voted no, and then walked into the EU anyway.

Meanwhile, Tassos Papadopoulos, the Greek-Cypriot president, seems less keen than ever on reviving the UN plan in any form. He balked at a recent request by Kofi Annan, the UN secretary-general, to suggest changes. What this tough line seems to reflect is confidence that membership

of the EU is strengthening the Greek-Cypriots' bargaining power, so the Turkish side can be induced to offer more.

Turkey has been told that talks on its own entry into the EU, due to start on October 3rd, will begin only if it formalises relations with all ten new EU members, including the Greek-Cypriot government. Its signature has been duly promised. Although its significance is contested, some say it means a new level of recognition for the Greek-Cypriot south.

With all these aces, some Greek-Cypriots reason, why rush back to the negotiating table? The trouble is that, on the Turkish and Turkish-Cypriot planets, things look so different. Recep Tayyip Erdogan, Turkey's mildly Islamist prime minister, had to work hard to win assent from his sceptical generals for the UN reunification plan, which would have meant pulling most of Turkey's 35,000 troops out of Cyprus. So he is in no mood to offer more concessions; he is already under fire.

In some ways, Greek-Cypriots have a point when they smugly insist that membership of the EU gives them clear tactical advantages. Some 30,000 Turkish-Cypriots have already succumbed to the lure of taking Greek-Cypriot passports, which enable them to find work outside their northern enclave, and indeed anywhere in the EU. Another 50,000 Turkish-Cypriots are said to be awaiting passports from the south. At that rate, grumbles Mustafa Akinci, a Turkish-Cypriot politician, there will be no real Cypriots left in the north of the island—only settlers from Turkey.

The rush for passports may also boost the fantasies of some Greek-Cypriots that, in the long run, the island will be reunited not under a careful UN plan, but through effective Greek domination. That is exactly why Mr Talat and many other Turkish-Cypriots want the UN process revived. Some feel it would be worth offering more sweeteners (such as reducing the Turkish garrison or more help finding the bodies of missing Greek-Cypriots) if they can shame the Greeks into coming back to the table. But the key to those offers lies in Ankara, not in Cyprus.

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Charlemagne

Let's talk—but where?

Feb 24th 2005
From The Economist print edition

Are NATO and the European Union partners or rivals?

Get article background

IT USED to be said that the North Atlantic Treaty Organisation and the European Union were in the same city, but on different planets. As George Bush will have noticed this week, the two Brussels-based organisations are just ten minutes apart by motorcade. But they have always had different missions and cultures. NATO is a military alliance, invented during the cold war to deter the Soviet Union; the United States is by far its biggest and most powerful member. The EU grew out of the European Economic Community, a title that encapsulates everything that sets it apart from NATO: it is purely European and its business has always been primarily economic.

Even today, the cultures of the two organisations are different. The EU is based in a string of grandiose offices in the centre of Brussels; its operatives are technocrats in suits; and its administrative culture is built along French lines. NATO is based in a compound in suburban Brussels that looks like a cross between an office park and a military base. Like the EU it is full of civil servants and diplomats, but they rub shoulders with a lot of uniformed officers with crew cuts. The atmosphere is brisk, military and American-accented.

Socially, the two remain worlds apart. NATO people mix with NATO people, and Eurocrats hang around with fellow Eurocrats. But with the end of the cold war, the missions of the two organisations began to change—and to bump against each other. After the demise of the Soviet Union, NATO lost its original *raison d'être*; prompted by America it has sought a new relevance, partly by taking on such “out-of-area” operations as Afghanistan. Meanwhile the EU has been developing a common foreign and security policy and even a fledgling military arm. Both NATO and the EU are now creating “rapid reaction forces”, potentially drawing upon the same pools of soldiers. Britain's Tony Blair, who has backed the EU's military ambitions, has repeatedly assured the Americans that they are intended to complement—not duplicate or rival—NATO.

Yet an implicit rivalry remains, and was a subtext underlying Mr Bush's visit to Europe. For the Americans, NATO is still, as Mr Bush put it in Brussels, “the cornerstone” of the transatlantic relationship. But just before Mr Bush's visit, Gerhard Schröder, the German chancellor, appeared to put the opposite view, when he said that “NATO is no longer the primary venue where transatlantic partners discuss and co-ordinate strategies.”

This contradiction is about much more than which set of Brussels offices has the most congenial meeting rooms. It is ultimately about how the transatlantic relationship is structured, and whether the Europeans will deal with the United States individually or as a single block. A senior French diplomat explains that his country sees NATO as so dominated by the United States as to be little more than a tool of American foreign policy. France's vision is that the EU should develop its common foreign and defence policy to the point where it speaks with one voice within NATO. At that point, the French hope, the transatlantic alliance would become a partnership of equals. This

idea skates over the fact that there would continue to be a huge mismatch in military might between the United States and Europe. But its political implications still make it deeply unpopular with the Americans. A senior American diplomat in Europe has gone so far as to say that the formation of a European caucus within NATO would be “the death” of the organisation.

In a presidential visit dedicated to celebrating a renewal of the transatlantic relationship, both Europeans and Americans were anxious to avoid pushing too hard on this sensitive spot. Mr Bush was careful to pay his respects to both NATO and the EU. He attended a NATO summit on the morning of February 22nd, and moved on to a conference and dinner at the EU headquarters later the same day. His European hosts noted delightedly that this was the first time that an American president had stepped inside the European Commission—and they lapped up Mr Bush's every reference to his support for European unity.

Cowboys and Indians

But did these genuflections mean that Mr Bush—through either naiveté or conviction—has suddenly accepted the idea that the Europeans will henceforth deal with the United States as a block, even within NATO? Hardly. It seems more likely that the Americans are adopting a wait-and-see attitude. They know that any overt American attempt to thwart European unity might play into the hands of “Euro-nationalists” like France's Jacques Chirac. And the administration also knows that the Europeans are less united than some of them might wish.

The European split over Iraq went far beyond the merits of deposing Saddam Hussein. It showed that there are two broad approaches to security within the EU. One group of countries believes that their security ultimately depends on the United States. As a senior Czech diplomat once put it: “One lesson we learnt from the 1930s, no more security guarantees from France.” These instinctive Atlanticists include Britain, Poland and most of the rest of central Europe, as well as the Netherlands and Italy (at least when the centre-right is in power). Another group, which includes France, Belgium and (in certain moods, and under certain governments) Germany, wants an autonomous European defence identity, as a key to achieving the “multipolar world” that Mr Chirac so often praises.

In Brussels, Mr Chirac met Mr Bush for a dinner, accompanied by an exaggerated (and unconvincing) display of friendship. Mr Bush was asked whether he intended to invite his guest to his Texas ranch. He laughed and said he needed a “good cowboy”. Mr Chirac smiled back. But it is precisely because the French fear that, within NATO, they will always just be cowboys on an American ranch that the rivalry between the EU and NATO will not disappear anytime soon.

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Northern Ireland

The damage done

Feb 24th 2005
From The Economist print edition

One consequence of the breakdown of relations between Sinn Fein and the British and Irish governments is that Sinn Fein is being hit where it hurts—in its finances

Get article background

ON FEBRUARY 20th, the Irish justice minister, Michael McDowell, named Gerry Adams, Martin McGuinness and Martin Ferris, leading members of Sinn Fein, Northern Ireland's biggest nationalist party, as members of the IRA's ruling army council. His outburst came as a shock not so much because the claim was surprising, but because it signalled that, after years of preserving polite fictions to protect the peace process, the Irish and British governments have lost patience with the republicans.

Late last year, the peace process seemed to be moving towards a settlement that would have restored devolved government in Belfast, handing power to the unlikely combination of the extremist Democratic Unionist Party (DUP) on one hand, and the extreme republican Sinn Fein on the other. Then, on December 20th, £26.5m ($51m) was stolen from the Northern Bank in Belfast. The police said that the IRA did it, as did the Independent Monitoring Commission that keeps tabs on paramilitary activity in the province.

The British and Irish governments were outraged. Bertie Ahern, the Irish Taoiseach (prime minister), in effect accused Sinn Fein leaders of planning the robbery while negotiating with him and Tony Blair. Paul Murphy, Britain's Northern Ireland secretary, told Parliament that he would recommend withholding up to £600,000 in allowances from Sinn Fein MPs in Westminster and Stormont. The robbery undermined the idea at the centre of the peace process—that the IRA was being negotiated into extinction.

Sinn Fein responded by denying IRA responsibility for the robbery. Even so, the Irish government ordered the police to move in on IRA money-laundering operations in the republic. Seven people were arrested and £3m seized. The police at first suggested that some of the money recovered had come from Northern Bank, but all the cash seized is now known to have been used in legitimate transactions, and six out of the seven people were released without charge. The only money which has turned up from the bank robbery so far was £50,000 found in the toilets of a Belfast club frequented by the police. Hugh Orde, the chief constable, dismissed this as an attempt by the IRA to distract attention from the discoveries in the Republic.

But what was found is less important than the fact that the raids took place. In the past, measures for the recovery of criminally acquired assets, and the Criminal Assets Bureau which operates those measures, have been used only against ordinary criminals, not paramilitaries. These raids were the first big operation by the Irish police against the IRA's business empire, which is believed to centre on hotels and pubs. According to the *Irish Times*, police say the IRA has also tried to buy a Bulgarian bank to help launder money.

Irish politicians' enthusiasm for taking on the IRA's business operations may have been sharpened by the electoral success those businesses have helped to finance. Sinn Fein likes to point out that, in Ireland's 2002 general election, it got 6.5% of the vote, slightly more than Mr McDowell's Progressive Democrats got. Last year, Sinn Fein did even better in the European elections in the Republic, with 11%. And in Northern Ireland, it got 23.5% of the vote in 2003—second only to the DUP.

Do voters share the politicians' disillusionment? The money-laundering revelations may do Sinn Fein some harm in the Republic, since it has, oddly, benefited from a relatively clean reputation in the past (the competition, in a polity plagued by accusations of planning-related bribery, is not hot). The convictions of five young men in Dublin last week will not help, either. They were found in vehicles stuffed with fake police uniforms, stun guns, balaclavas, lump hammers, duct tape and a lot of Sinn Fein election posters. On the other hand, Sinn Fein's core voters in the Republic—men too young to remember the worst days of IRA violence—may not mind that sort of thing too much.

In the north, murder, rather than the money-laundering, may have hit the party's standing hardest. On January 31st, Robert McCartney, a 33-year-old Catholic, had his throat slit near his home in the Catholic enclave of Short Strand outside a pub crowded with Provisional IRA men who had returned from the annual Bloody Sunday commemorations in Derry. Nobody saw anything. A campaign by his five sisters, who say IRA men did it, extracted an unprecedented IRA declaration that any republicans involved must take responsibility for their own actions. Anti-Provisional IRA graffiti have appeared in Short Strand for the first time.

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Gays and the military

Hello, sailor

Feb 24th 2005
From The Economist print edition

The military learns tolerance

THE traditions of the Royal Navy, said Winston Churchill, are all “rum, sodomy and the lash”. Which makes it perhaps odd that so many were surprised when, on February 21st, the navy announced that it had signed up to a programme run by Stonewall, a lobby group for gay rights. According to the group's “Diversity Champions” scheme—to which many government agencies and private companies already subscribe—the navy will try to make gay sailors happier and to attract more gay recruits.

The navy's initiative does not herald a radical change in recruiting policy. Since 2000, when a ban on homosexuality in the military was lifted, the armed forces have all done a lot to encourage gays to join up. The navy and the air force advertise for recruits in the pink press. Last year, the air force contributed a float featuring a splendid warplane to Gay Pride, Britain's biggest gay rally. By the end of this year—according to far-reaching legislation that will apply to all Britons—gay military couples who register as civil partners will be eligible for married quarters.

Yet cast an eye back to 2000 and these smooth reforms look astonishing. As the lifting of the ban loomed—as European human rights law said that it must—several lofty officers resigned in protest and top brass across the services warned of terrible consequences for discipline and morale. How could they have been so wrong?

Homophobia must have played a part. Having been trained to detect and kick out gays for so long, senior officers could hardly be expected to embrace them. Five years after the ban was lifted, the most senior openly gay officer in the armed forces is a mid-ranking navy commander, Craig Jones. Before leaping from the closet the day the ban was lifted, Mr Jones led a painful double life, complete with an imaginary girlfriend named Sandra. Happily, he says, his partner was not jealous.

Further down the ranks, however, among young squaddies, airmen and sailors, there are happier tales. On a recent trip to southern Iraq, this thirty-something correspondent was startled to hear twenty-something gunners in the Royal Artillery openly discussing their sexuality. At least four of the battery's 12 female members—who were serving in Iraq, incidentally, as front-line infantrymen—were lesbian, said Gunner Tara Thompson, a lesbian awaiting promotion. Ms Thompson's male comrades gave not two hoots that she preferred girls. She was good at her job, they said, and Ms Thompson agreed, adding: “I love the big guns.”

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Food scare

Spicy

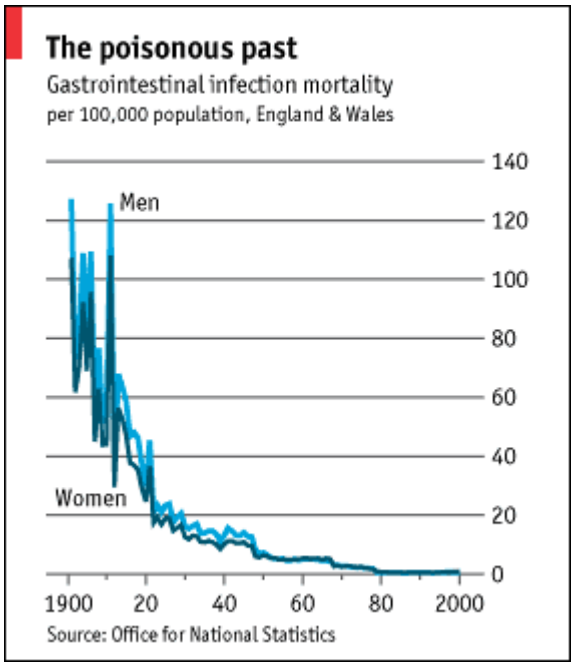
Feb 24th 2005
From The Economist print edition

The biggest food scare since the last one is less frightening than it looks

SUDAN 1 is a red dye used to colour polishes, waxes and solvents. It isn't meant to be used in food, and has been banned as an additive in the European Union since 1995. That is because some people think it causes cancer. So when traces of it were found in a batch of Worcester sauce made by Premier Foods, British newspapers were not slow to alert their readers to the dangers of filling up their supermarket trolleys with carcinogens. The source of trouble was a contaminated batch of chilli powder, which went into Premier's Worcester sauce. That in turn was added to over 400 food products, which are now being recalled. It has already been labelled “the biggest food scare since BSE”. But how scary is it?

Sudan 1 is a genotoxic carcinogen, which means that it can permanently alter the DNA in, say, a human liver cell. The study that links Sudan 1 to cancerous tumours was done in America 20 years ago. It found that when rats and mice were fed 30mg of Sudan 1 for each kilogram of their bodyweight every day for two years, the rats underwent changes that indicated they were on the way to getting tumours. The mice were okay. The study was peer reviewed, but was never replicated. When the International Agency for Research on Cancer looked at the data, it decided it was not robust enough to categorise Sudan 1 as a likely cause of cancer, says Alan Boobis, a toxicologist at Imperial College, London. He likens the risk of getting cancer from the affected food products to that from smoking one cigarette in a lifetime.

If an average-sized man, who weighed 80kg (12½ stone), volunteered to test the effects of Sudan 1 on humans, he would have to consume 2.4 grams of the dye a day to match the dose given to the rats. According to the Food Standards Agency (FSA), there are 3mg of Sudan 1 in every litre of the contaminated Worcester sauce. So our man would have to drink around 800 litres of Worcester sauce every day for two years. That's an awful lot of Bloody Marys.



Even though there is little evidence that the dye is a killer, does the fact that an illegal substance was found mean that Britain's food-safety system is faulty? Not according to Sue Dibb of the National Consumer Council, who says that controls have been tightened up since the mad-cow crisis. Since 2003, for example, all chilli imported into the EU has had to be certified as free of Sudan 1. The offending batch apparently came in before then. And in January, an EU directive which obliges producers to know where their ingredients come from and to whom they are sold became law. That's how the FSA was able to compile such a long list of products, ranging from shepherd's pies to salad dressings, which contained the Worcester sauce. It then recalled them swiftly: the FSA received the information on February 14th, and the recall started on the 18th.

Food has probably never been safer (see chart). But a headline that reads, “food recalled—health risks minimal” will probably not sell many papers.

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Hunting

From saboteurs to snitches

Feb 24th 2005 | GODALMING, SURREY
From The Economist print edition

How the new law is affecting the ancient tradition of hunt sabotage

WHEN the Surrey Union hunt rode off after its 11 o'clock meet on February 19th, two fluorescent nylon coats stood out against the red (pink, to those who know) of the huntsmen. They belonged to officers of the Surrey Police, sent to keep an eye on the first hunt since a ban on killing mammals with dogs became law last week. Several hundred hunt supporters came out to hear stirring speeches and to record a clip of defiant cheering for the television news. One fox was killed, though without breaking the law. In short, the hunt looked more or less like it used to before the ban came in. Apart, that is, from the absence of hunt saboteurs, who were nowhere to be seen.

Compared with protests about the threat to rural tradition and civil liberties from the hunting ban, the threat to the ways of the hunt saboteur has received little attention. But hunt sabs, as they like to be known, have a venerable past. Last year the Hunt Saboteurs Association (HSA), which claims 5,000 members, celebrated its 40th season in the field. Over this time, the hunt saboteurs have undergone evolutionary refinement, developing tricks to outwit the huntsman. These range from carrying flasks of garlic powder in a hot water solution (to disguise the scent of a fox when it crosses your path), to perfecting the use of a hunting horn (to send hounds in the wrong direction).

Such skills are, sadly, likely to be lost within a generation. They will be replaced by techniques better fitted to the role that saboteurs now have to play. These include filming hunts, to gather evidence of illegal hunting. The HSA says it had about 25 groups out in the field with video cameras on Saturday, though it did not spot anything incriminating. That sounds much less fun than putting bodies between hounds and foxes or running away from the police, which is how saboteurs used to spend their Saturdays.

Worse, the saboteurs will now have to work with the police to enforce the ban. The coppers have made it clear that policing hunting is not a priority, so they will rely to a great extent on evidence of law-breaking from members of the public. In the past, says Nathan Brown of the HSA, “the police were very happy to step in and arrest us on a word from a hunt supporter.” But last Saturday's hunt, according to Dawn Preston, also of the HSA, was “a bit of a weird-world scenario. Now the police are our best friends.”

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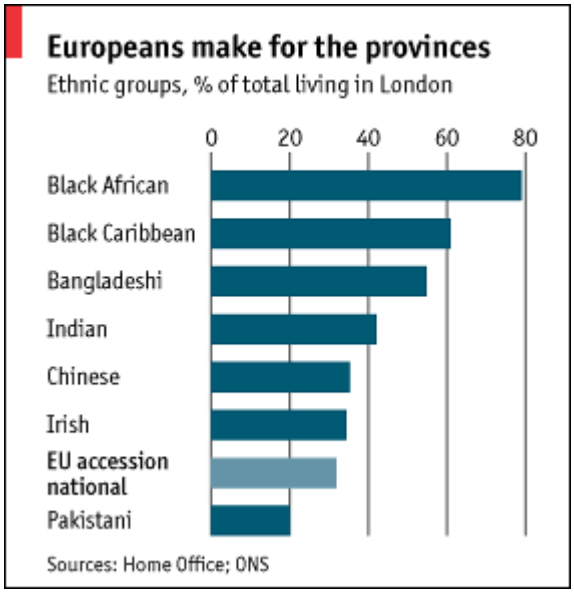
Immigration

All over the map

Feb 24th 2005
From The Economist print edition

Britain's newest immigrants spread out



NOBODY knew what might happen when, on May 1st last year, 74m people from central Europe and the Baltic states gained the right to work in Britain. A Home Office study predicted that only 5,000 to 13,000 per year would trickle into the country. The more paranoid sections of the press, on the other hand, forecast a flood of Old Testament proportions. As it happens, neither side was right. Figures released on February 22nd showed that 123,000 people had registered to work in just eight months. But it was less a flood than a heavy rain across the country.

New immigrants tend to form clusters from which they gradually disperse. Usually, these are in London—home to 61% of black Caribbeans and 42% of Indians. Not so the Poles, Slovaks and Lithuanians. Only 32% of them, and falling, are in London. “They are now thrown all over the place,” says Mieczyslaw Hampel, president of a Polish expatriate organisation.

Warsaw-accented English is now spoken in places that see few migrants from the rest of Britain, let alone abroad. New Europeans are arriving in Scotland at the rate of 1,075 per month, mostly to work in restaurants, hotels and fields. That adds 24% to the immigrant flow from Britain and is enough on its own to balance Scotland's losses to London and the south-east.

Why so far flung? Partly because of the jobs they go for. A fifth work in agriculture and food, and a tenth in construction, transport and health—all widely-dispersed industries. Also, central Europeans cannot claim housing benefit, which means big city life is virtually unaffordable (four-

fifths earned less than £6 per hour).

Cultural factors may be at work, too. The immigrants come from eight countries, which makes it hard to form ghettos. Only the Poles, who account for more than half of the flow, could have formed a cohesive community; and the Polish war veterans and refugees from communism already settled in Britain did not welcome them warmly. As the border was opening, the Federation of Poles in Great Britain sent a message home: if you have few skills and no job lined up, stay away.

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Immigration

Howard's beginning

Feb 24th 2005
From The Economist print edition

How Michael Howard's father got into Britain to sing in a synagogue

Get article background

THE Conservative Party's hostility to immigration has focused attention on the question of whether the party's current immigration policy would have allowed the leader's father into Britain. The answer, on the basis of documents dug up by the *Sunday Mirror*, is probably not, because he did not have a work permit and got in only after a personal intervention of the sort frowned on today; but the more interesting aspect of the record is the close attention it shows that at least one MP paid to the welfare of his constituency's Jewish community.

When Bernat Hecht (later Bernard Howard) arrived in Dover from Romania in 1937, the immigration officer reported:

> Alien, a Cantor [singer in a synagogue], produced a letter saying: “We are contemplating engaging a Cantor for our synagogue [in Whitechapel, east London] and will choose whom we think most suitable. We have heard favourable reports about you and if you are interested we shall be pleased to send you a ticket to London, and we are prepared to pay your expenses over the period of the trial.” Alien was not in possession of a Ministry of Labour permit.

Mr Hecht was sent back to Ostend. But two days later, James Hall, Labour MP for Whitechapel, hand-delivered a letter to the home secretary, saying:

> There is a dearth of Cantors during the Passover period...I beg to submit the application for your favourable consideration and would regard it as a personal favour if an early reply could be given me because of the urgent character of the situation.

The home secretary obliged.

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Public-sector pensions

Prepare to strike

Feb 24th 2005
From The Economist print edition

The battle heats up

THE last thing that a party with its roots in the trade unions needs before an election is a row with unionised government workers. But Labour may be facing exactly that, as the argument about what should happen to Britain's expensive public-sector pension schemes turns nasty.

Unlike most of the private sector, the state still offers defined-benefit schemes. The usual retirement age is 60, compared with 65 in the private sector, and it is possible to retire even earlier. The government says that this largesse cannot continue.

Local government schemes are first in line to be changed. Starting in April, ministers plan to raise the usual retirement age from 60 to 65, and to abolish the “rule of 85”, which allows workers to retire early if their age and years of service total more than 85. Next year, the retirement age will rise for civil servants, too, and their current final-salary scheme will be replaced with a career-average one, which will pay some of them less.

That has enraged the unions, who accuse the government of behaving imperiously and not consulting them on the changes. That, they say, breaks part of the Warwick Agreement, a compact agreed last year between Labour and the trade unions on several issues of public policy. Earlier this month they sent out strike ballots to 300,000 central government and nearly 900,000 local government workers. Without a last-minute compromise (possible, but improbable, as *The Economist* went to press), a strike on March 23rd looks likely. With a general election expected in May, the timing is bad for the government.

Plans for teachers' and health workers' pensions are expected to be announced within the next few months, which will probably cause more grief. And then there is the question of actually paying for the pensions. Local government schemes face a projected shortfall of up to £30 billion, according to Helen Kilpatrick, who chairs the pensions panel at the Chartered Institute of Public Finance and Accountancy—and that assumes that ministers can get their changes through. As for central government workers, the government admits that there is a shortfall of some £425 billion, but Watson Wyatt, an actuarial firm, thinks that the true figure is nearer £690 billion—well over half of British GDP.

The justification for the public sector's generous pensions used to be that state workers were paid less than their privately employed counterparts. That's still true for local government workers and civil servants in central government. But it's no longer the case for the state sector as a whole, where wages are now 11% higher than in the private sector. That will make it hard to convince private-sector workers—some of whose pensions are looking fairly sickly, too—to keep underwriting the government's generosity.

Public finances

Gordon's sums look better

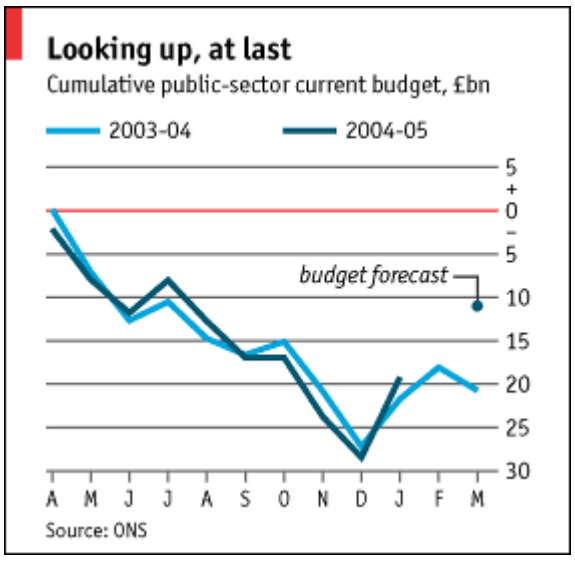
Feb 24th 2005
From The Economist print edition

But there is still reason to worry about future years

GORDON BROWN has a nasty habit (for his political opponents) of having the last laugh. The economy grew by 3.1% in 2004—within his forecast of 3-3.5% in his last budget, thus confounding sceptics. He may trump this by getting his public-finance sums more right than most observers expected. That would be an even sweeter vindication for Mr Brown when he presents his budget on March 16th.

The chancellor focuses on the gap between current spending and revenues. This is because he wants to meet the "golden rule" of borrowing only to invest over the economic cycle. The Treasury says that the present cycle started in 1999-2000 and will end in 2005-06.

In the first years of the cycle, there were big surpluses. More recently, there have been deficits, reaching £20.7 billion in 2003-04. In his budget last March, Mr Brown was unfazed. He forecast that the deficit would shrink to £11 billion this year and £5 billion in 2005-06. According to the Treasury, this meant that the golden rule would be narrowly met.



The chancellor's confidence appeared misplaced during the first nine months of the financial year. By December, the cumulative deficit was still bigger than it had been in December 2003. But January's figures brought an improvement (see chart).

The main reason is that tax revenues were 12.7% up on January 2004. In the ten months to January, they were 7.8% higher than in the same period in 2003-04—bang in line with the budget

forecast for the whole financial year. The improvement in the deficit would have been even bigger if current spending had grown in line with the budget forecast of 5.1%. Instead, it was 6.3% higher in the ten months to January than in the same period in 2003-04.

It is unclear whether the Treasury will be able to yank spending back under control in the final two months of the year. However, a technical change announced on February 18th by the Office for National Statistics will help Mr Brown meet the golden rule. In March, some road maintenance expenditure will be reclassified as investment rather than current spending. This change, which will affect past estimates as well, prompted Oliver Letwin, the Conservative shadow chancellor, to protest about “fiddling the figures”.

Things could still go wrong for Mr Brown. The bumper tax take in January could be followed by poorer receipts in February and March. But whether by fair means or foul, the chancellor now appears considerably closer to meeting his budget forecast than seemed likely late last year.

That may help Labour in the general election expected in May, but a tax-raising budget in 2006 still looks inevitable. The Treasury thinks that much of this year's deficit is because the economy is operating below capacity. But in its latest *Inflation Report*, the Bank of England said that output was “close to, and possibly slightly above, potential supply”. If this is the case, the deficit is structural and painful tax rises will be necessary to correct it.

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Prevention of Terrorism bill

Climb-down

Feb 24th 2005
From The Economist print edition

Despite concessions on house arrest, the new bill still faces a rough ride

A MONTH ago, the government announced plans to keep terrorist suspects indefinitely under house arrest on the home secretary's say-so. It has been attacked from all sides ever since. This week the government backtracked.

Under the Prevention of Terrorism bill, introduced to Parliament this week, house arrest would remain a potential tool in the government's ever-expanding anti-terrorist arsenal, but the government would first have to opt out of Article 5 of the European Convention on Human Rights guaranteeing a right to liberty. Parliament would have to vote on that.

The government could do this only if the terrorist threat to Britain, already described by the government as “unprecedented”, got even worse. Even then, the powers would remain hedged by political and judicial safeguards. Before the home secretary could make a house-arrest order, he would have to be satisfied “on the balance of probabilities”—no longer on the basis of “reasonable suspicion”—that the suspect has been “involved in a terrorism-related activity”. He would also have to be satisfied that such an order was “strictly required”. The period of house-arrest will be limited to a maximum of six months, extendable through a new house-arrest order. Within seven days of its being imposed, the High Court would have to confirm that the home secretary had “reasonable grounds” for making such an order. Even if it were so satisfied, the case would go on to a full court hearing.

The bill also provides for a whole range of lesser restrictions including tagging, curfews, a ban on association with specified people, prohibitions on using phones, restrictions on travel, and so on. Tailored to meet the threat posed by each suspect and limited to a renewable period of 12 months, these would not be subject to the same judicial scrutiny as house arrest. Nor would they require derogation from the European convention.

But the new orders, including house arrest, would be used only where a suspected terrorist could not be prosecuted either because the evidence against him was not admissible in court, or because it might reveal intelligence sources or surveillance techniques. Charles Clarke insists that he would prefer to prosecute. That's why the home secretary is considering further anti-terrorist legislation, including making it a crime to be involved in the preparation or commission of terrorist acts.

The government is now trying to rush the bill through Parliament before its discredited detention powers expire on March 13th. Of the 17 foreign terrorist suspects incarcerated under the act, ten are still being detained. All are now expected to be released before being subjected to one of the new control orders—though not house arrest. Such deprivation of liberty is not justified at present, Mr Clarke admits.

Despite the concessions, many MPs still oppose what they see as an attack on fundamental liberties. The bill got through the House of Commons, but a revolt by 32 Labour MPs cut the government's majority. More concessions are likely. Even in a watered-down version, the bill will struggle to get through the House of Lords where Labour does not have a majority and the peers are bolshy.

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Exams

A-levels reprieved

Feb 24th 2005
From The Economist print edition

Big changes are coming to exams, but not the ones that teachers wanted

Get article background

CRITICS of vocational education are snobs, obsessed with academic qualifications. That was the official line—but now reality is dawning. Ruth Kelly, the education secretary, this week described vocational qualifications as “second-class and second-rate”.

Sad, but true: if you are clever at school, you do lots of GCSE exams at 16, a bunch of A-levels at 18, and go to a good university. If you are not, you end up with rather few GCSEs, and instead do a confusing mix of qualifications with off-putting names like NVQ, GNVQ, AVCE, GSVQ, or BTECH; 3,500 variants are possible (nobody keeps a full count). If you get into a university, it is unlikely to be Oxford.

The current system of educating 14-19-year-olds is not just insanely complicated. It also pleases almost nobody. Employers complain that around a third of school leavers lack even the most basic numeracy and literacy. About a quarter of the least able pupils drop out at 16. The most able find it too easy to get A-grades at A-level, meaning that admission to sought-after university courses becomes a lottery.

Last year, in an official report, Sir Mike Tomlinson, a former chief schools inspector, proposed ingenious changes. The system should be more demanding, yet also more flexible, and more broadly based. The central proposal was to replace the existing exams with all-encompassing diplomas. That pleased the egalitarian-minded, who liked the idea of having the same kind of exams for both hairdressing and physics. But many—including the prime minister—regard even flawed A-levels and GCSEs as better than none.

So this week Ms Kelly binned Sir Mike's central recommendation, saying that A-levels and GCSEs would stay. The educational establishment is furious. But three big changes are coming.

The first is to make basic maths and English compulsory. The current benchmark for 16-year-olds, reached by 53% of pupils, is five passes at C or above at GCSE. But a fifth of those skip maths, English or both. Under the proposed scheme, five GCSEs will be relabelled a diploma—but gaining passes in new “functional” maths and English will be mandatory. Those failing to reach this at 16 will keep trying, rather than leaving. From next year, school-performance league tables will be based on the new benchmark.

The second idea is to give disaffected pupils something to do outside school. From the age of 14, they will be offered placements with employers for two days a week. That sounds fine—although finding employers keen to take schools' least-favourite pupils, and willing to overcome the legal and insurance problems of having minors on the premises, will be hard.

The third change will be to allow clever pupils to take exams early, or even skip some of them altogether, and start more advanced courses while at school. That should help identify the brightest. It too sounds a fine idea, but even top private schools, with lots of money and good teachers, find it tricky to timetable lots of variation within one age-group's lessons. Teaching a subject at the same level to bright 13-year-olds alongside struggling 17-year-olds, for example, is not a recipe for classroom harmony.

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Bagehot

They've got your number

Feb 24th 2005
From The Economist print edition

If the Tories do better than expected, it will be thanks to a disciplined, high-tech campaign

Get article background

ONE opinion poll doesn't make the political weather. But after months of Tory gloom there was jubilation this week in the Conservatives' Victoria Street campaign headquarters when an ICM poll in the *Guardian* gave the party its best rating for nearly a year—just three percentage points behind Labour with 34%. A MORI poll in the *Financial Times* three days later giving Labour a two-point lead added to the impression of progress.

Until now, the Tories haven't had a great deal to show for their quite impressive efforts over the last few weeks. During this phoney war, they have been unexpectedly successful in setting the political agenda. Michael Howard gambled by staying policy-light last year in the hope that when his party did have something to say, it wouldn't seem stale. Each week has seen the launch of new Tory plans, which, surprisingly, given that nobody really expects the policies to be implemented, have been diligently reported and commented on. By contrast, Labour has seemed preoccupied with the problems of governing, while its attempts to appear energetic and brimming with fresh ideas have so far fallen flat.

And although it is painful to say so, there are signs that Mr Howard's cynical determination to put immigration at the centre of the campaign is also working better for him than it did for William Hague in 2001. The MORI poll shows that immigration and asylum are now rated the single most important issue by 23% of the electorate. Labour knows that the best it can hope for is damage limitation; while Mark Oaten, the Liberal Democrat home affairs spokesman, admits that whenever he praises the contribution made by immigrants, a few more people who might have voted Lib Dem will quietly decide not to.

Liam Fox, the Conservatives' co-chairman, has argued for some time that things are going better for his party than they seem. He argues that the polls have habitually over-stated Labour's support and that they fail to allow properly for the finding that over 70% of Tory supporters are certain to vote compared with 55% of Labour supporters. He also cites a decline in anti-Tory tactical voting as memories of the last Conservative government fade and disillusion with the government grows.

Most of all, Dr Fox is confident that he will run a more efficient campaign in key marginals thanks to the dark arts of the recently appointed Lynton Crosby, who helped secure the re-election of John Howard in Australia last year, and Voter Vault, a spiffy American database program that stores and analyses voters' social characteristics and which Karl Rove believes helped tip the balance for George Bush. Dr Fox thinks that rather than a single national campaign, there will be a series of running battles in dozens of constituencies in which the ability to target swing voters with the right messages will be crucial.

Dr Fox's claims about a pro-Labour bias in the polls are largely specious—reputable polls all take account of differential turnout. But campaign professionals from the other parties agree with Dr Fox on one thing: extrapolating the outcome of the general election from national poll findings has become harder. There will be local battles between the Tories and the Lib Dems in the rural and semi-rural south, between Labour and the Lib Dems in northern cities and three-way fights elsewhere—some of which could suddenly become two-ways depending on which party gains early momentum against the sitting MP.

The Tories' announcement this week that they will spend £1.3 billion ($2.5 billion) of the £4 billion they have earmarked for tax cuts on a non-means-tested council tax rebate of up to £500 for the over-65s illustrates the way in which Voter Vault is being used. New call-centres will contact every pensioner the computer system predicts will benefit to make sure they know what's on offer. One Tory candidate defending a once safe seat, but fearful of the Lib Dems' promise to replace council tax with a local income tax, called it a “Godsend”.

So-called “grey voters” can look forward to saturation love-bombing between now and the election. Their growing numbers and high propensity to vote makes them eight times more important to political parties than the under-25s. Some Tories, however, would like to see other groups of voters targeted in the same way, for example by cutting stamp duty for first-time house buyers or raising inheritance tax thresholds.

Not a silver bullet

Voter Vault should help the Conservatives fight more effectively and stay more focused than in previous elections, when they have been outgunned by the sophistication of Labour's machine and demoralised by the superior commitment of Lib Dem volunteers on the ground. But the British version of Voter Vault is hamstrung by restrictions on data-gathering enforced by the Data Protection Act and depends heavily on information from Mosaic, a marketing firm that sells demographic profiles based on postcodes. Tiresomely, Labour also invested in Mosaic last year, although its computer system, called Labour Contact, is thought to be less advanced than the Tories'. With less money, the Lib Dems will rely again on the enthusiasm of activists and their more finely honed local campaigning skills.

The importance of the opinion polls to the Tories is that the party must create an impression of momentum in the six weeks before the election is called. Once the campaign is officially under way, the Lib Dems should prosper from increased attention, especially television coverage, while Labour will enjoy an incumbency effect, thanks to the sheer number of its MPs.

Unless something extraordinary happens, the Tories will still be fighting only for the difference between a respectable second place and a humiliating second place. But if a tough, disciplined, technically savvy campaign makes that difference, Dr Fox, Mr Crosby and Voter Vault will all have earned their corn.

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Summer intern

Feb 24th 2005
From The Economist print edition

The Britain section is looking for a summer intern. Age and station immaterial. Pay negligible. Applicants should e-mail an article they think could appear in the Britain section to britain_intern@economist.com by March 15th.

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Private equity and the media business

A different breed of mogul

Feb 24th 2005 | LONDON, LOS ANGELES AND NEW YORK
From The Economist print edition

Are private-equity firms better at running media businesses than media managers?

AT THE Warner Music party at the Grammy Awards in Los Angeles last year, a senior private-equity executive made a beeline for Madonna's publicist. He took her by the arm and demanded that she introduce his daughter to the singer. “I'm the new owner of Warner Music,” he said. She told him to take his hand off her arm, but made the introduction. The investor is one of many private-equity men newly in charge of entertainment assets. Private-equity firms—which manage big, secretive funds of money, which they use to buy influential stakes in companies—reckon they can bring financial discipline and a better understanding of technology to the business. Media executives, on the other hand, snigger that these newcomers like the glamour but have no idea how showbiz works. Who is right?

With a series of well-timed deals, private-equity firms are giving traditional media-managers cause to be envious. The Warner Music transaction, in which Edgar Bronfman junior and three private-equity firms paid Time Warner $2.6 billion for the unit in 2003, is already judged a financial triumph for the buyers. Their success is likely to draw still more private equity into the industry. And the investments are likely to get bigger: individual private-equity funds are growing—a $10 billion fund is likely this year—so even the biggest media firms could come within range, especially if private-equity investors club together.

Some private-equity firms have long put money in media assets, but mostly reliable, relatively obscure businesses with stable cashflows. Now, some of them are placing big strategic bets on the more volatile bits, such as music and movies. And they are currently far more confident than the media old guard that the advertising cycle is about to turn sharply upwards.

Lots of deals are expected soon. In Britain, shares in the biggest commercial broadcaster, ITV, rose by a fifth this year on the expectation that a private-equity firm, Apax Partners, would bid. There is talk that private equity will help Harvey and Bob Weinstein, two movie producers who have fallen out with their backers, the Walt Disney Company, and need new funding.

Stars in their eyes

One reason why private equity is making its presence felt in media is that it has a lot of money to invest. Other industries are feeling its weight too. But private equity's buying spree reveals a lot about the media business in particular. Media conglomerates lack the confidence to make big acquisitions, after the last wave of deals went wrong. Executives at Time Warner, for instance, which disastrously merged with AOL in 2000, wanted to buy MGM, a movie studio, but the board (it is said) were too nervous. Instead, private-equity firms combined with Sony, a consumer-electronics giant, to buy MGM late last year.

Private equity's interest also reflects the fact that revenue growth in media businesses such as broadcast TV and radio is now hard to come by. The average annual growth rate for 12 categories of established American media businesses in 1998-2003, excluding the internet, was just 3.4%, says Veronis Suhler Stevenson, an investment bank. Private equity puts a higher value on low-growth, high cashflow assets than the public stockmarket, says Jonathan Nelson, founder of Providence Equity Partners, a media-focused private-equity firm.

What private-equity men now bring to the media business, they like to think, is financial discipline plus an enthusiastic attitude towards new technology. Old-style media managers, claim the newcomers, are still in denial about how technology is transforming their industry.

Bono, star of the rock band U2, has helped to establish a new private-equity firm, Elevation Partners, which will specialise in buying media and consumer businesses. He says that Hollywood is stuck where the music industry used to be, believing that it can dictate to customers how and at what price they can use its products. Hollywood's control will not last long, he predicts, because digital technology and broadband internet make it easy to download movies free. Elevation wants to buy video-game businesses—a rapidly growing area which established media firms are also clamouring to enter.

Traditional media managers grudgingly agree that, so far, private-equity investors are doing very nicely indeed from their entertainment deals. The buyers of Warner Music have already got back most of their $2.6 billion from the firm by cutting costs, issuing debt and making special payouts to shareholders. This year, its investors are expected to launch an initial public offering, which could bring them hundreds of millions more. When ProSiebenSat.1, a German TV firm, was put up for sale in 2002, media firms failed to move fast enough and it was bought by a group of private-equity investors. Now media firms such as Axel Springer, a German publisher, are reportedly interested in buying it—which would reward the private-equity group handsomely.

In the long run, say media veterans, private-equity firms are unlikely to build much, even if they profit in the near term. Instead, says one media banker in New York, “they will leave naked companies with skeletal structures and no meat on their bones.” According to this view, private-equity people do not understand the making of “content”—films, TV-shows, books—and all they can do is strip out costs and play tricks with financial leverage.

“It's true that private-equity firms often can't relate to creativity and talent,” says Steven Rattner, managing principal of Quadrangle Group, a New York private-equity and distressed-debt firm, “but that's because creators of content are not always as interested as they should be in making money for their investors.” Like it or not, however, the media business depends on managing

expensive, flighty talent, and this is the area where private-equity firms are most likely to come unstuck.

Some private-equity firms are far savvier about media than others: Providence Equity Partners is particularly strong, according to people who know the media business, whereas others are blindly following a trend. Providence's Mr Nelson strongly disagrees with the notion that private equity has little interest in building long-term businesses. Alongside Sony, Comcast and MGM, he points out, Providence is currently building new cable networks. “Instead of treating private equity like a sub-species, well-managed media companies have figured out that under the right circumstances, we're both better off as partners,” he says. So far, however philistine and ruthless their motivations seem to the industry's old guard, private-equity firms are making media work better.

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The world's most valuable company

The age of oil

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The meaning of Exxon Mobil's triumph

SO THE latest claimant to the title of world's most valuable firm is—wait for it—an oil company? Propelled by soaring oil prices and record-breaking profitability, shares in Exxon Mobil, an American oil giant, have soared by over 40% in the past year and doubled since 2002. This month, Exxon Mobil finally knocked General Electric off its familiar perch at the top (see chart), as Exxon Mobil's market capitalisation topped $380 billion. In its time, GE and its brutally efficient cadre of executives were symbols of everything Americans most admired about their managerial class. Microsoft's brief spell as most-valuable firm showcased the innovative and entrepreneurial strain of American capitalism. Exxon Mobil digs big holes in the ground for a living. What sort of an icon is that?

The world's big oil firms last hogged the limelight in the 1970s, when high oil prices not only boosted the value of their industry but, by igniting inflation, destroyed the fortunes of almost everybody else. By 1980, oil-industry firms made up nearly one-quarter of the value of all listed firms in America. Then came a long period of relative decline, as central banks tamed inflation and the oil price fell. What is notable about the recent resurgence of big oil's relative fortunes is the apparent absence of wider inflationary pressures (except in asset prices). Under these conditions, other sorts of firms have stayed richly valued, too. That makes Exxon Mobil's achievement all the more impressive.

Equally impressive has been the industry's resilience despite nagging questions about the way it accounts for its reserves—the oil and gas it claims to have discovered for future extraction. An accounting scandal at Royal Dutch/Shell last year forced the Anglo-Dutch oil giant to cut by one-third the “proven” reserves it reports to its shareholders. Yet since last March, shares in Shell's two parents—Royal Dutch Petroleum and Shell Transport & Trading—have risen by 30%. A study this week by Cambridge Energy Research Associates, a respected advisory firm, offers one clue about this seemingly odd state of affairs: it calls the Securities and Exchange Commission's 27-year-old accounting rules (which the industry is accused of gaming) archaic and “overly conservative”.

In the 1970s, big oil spent its fortunes on lavish exploration and production programmes, and on peculiar acquisitions: in 1976, Mobil bought Montgomery Ward, a mail-order retailer. Today, happily, diversification is out of fashion. Investment plans remain surprisingly restrained. Instead, oil firms are returning huge piles of cash to their shareholders. If that does not quite elevate them to the status of capitalist icons, it does at least underscore the point that managerial restraint can

sometimes be a braver and more value-creating strategy than vaulting ambition.

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Senior executives

A rise in the C-level

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Too many chiefs?

A NEW report by London Business School and Ariba, a software firm, says that the heads of the purchasing department at 70% of European firms now report directly to their boards, 20% up on a year ago. People who used to buy copiers and ballpoint pens now talk strategy with directors because, says Ariba's Steve Muddiman, “their spend-management expertise is becoming highly valued.” With this new clout comes a new title, CPO—chief purchasing officer—and elevation to the so-called C-level, a growing class of corporate executives (known in America as CXOs) whose title begins with the word “chief” and ends with the word “officer”.

The list of those already in the managerial C-suite includes CEOs (chief executive officers), COOs (chief operating officers), CFOs (chief financial officers) and CIOs (chief information officers). WPP, the owner of three global advertising agencies, has a CTO (chief talent officer) whose incumbent, Beth Axelrod, will soon move to the same post at eBay. In a new paper, Marakon, a consultancy, suggests that firms consider appointing a “chief growth officer” (CGO) to oversee the subject that “has risen to the top of the corporate agenda”. Such a creature already exists at H.J. Heinz and Honeywell, although Colgate-Palmolive recently got rid of its CGO.

C-level executives are now a distinct socio-economic group: market research has found that they spend an average of 16 hours a week on the web and only 6.6 hours reading magazines. Aspatore, a publisher in Boston, publishes exclusively the works of C-level authors, to help their own kind “make pivotal business decisions”.

The shifting ratio of chiefs to Indians aside, the rising number of C-level appointments indicates a significant change in corporate structure. The heads of specialist functional “silos” (finance, human resources, IT, etc) are becoming more and more involved in talking corporate strategy with the chief executive and the board. Ten years ago these specialist heads would have been condemned to their niches for life. Now, more and more feel they have it in them to one day change their middle letter to an “E”. They are being encouraged by the decline of the more traditional non-specialist number two, the COO. A recent study of 300 quoted American companies found that 20% of them abolished the COO position between 1986 and 1999.

The trend is clearest among CFOs. In a new book, “CFO Thought Leaders”, Booz Allen & Hamilton, a consultancy, notes that in the past decade the chief financial officer has become far more than a bean counter. “Today's CFOs see themselves as strategic activists,” say the book's authors—ie, much like CEOs. Michael Sears, a former CFO of Boeing jailed for four months at the end of last week for illegally offering a job to an air-force purchasing officer, talked more like a would-be CEO than a CFO, which was not surprising as he had no financial experience and saw the job as a mere springboard to the top.

Yet when pure specialists rise up their silo and into the chief executive's chair, that can also be a

cause for concern. At Carrefour, the world's second-biggest retailer, the chief executive was fired earlier this month and replaced by the CFO, José Luis Duran. Mr Duran started his career with the now defunct accountants Arthur Andersen. He joined a Carrefour subsidiary in 1991 in the audit department and in 2001 became CFO of the parent company. He has no specific retailing experience.

He is now working as the *primus inter pares* among a group of C-suite executives with specialist skills. Not all of the board was convinced that this is the right structure to restore the French retailer's fortunes: two directors resigned when Mr Duran's appointment was announced.

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Pharmaceuticals

Combination therapy

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Novartis buys two generic drugmakers

EPA

Searching for the next big deal?

WHILE coping with sluggish pipelines of new drugs, rising development costs and pressures on product pricing, big pharmaceutical companies are not particularly inclined to regard imitation—in the form of generic versions of their blockbuster products—as flattery. Relations between the big firms selling branded drugs and the generics industry are often frosty, especially now that at least $9 billion-worth of patented drugs may face generic competition in America this year and several landmark patent challenges are before the courts. Yet this week Novartis, a Swiss drug giant, took a huge step towards the dark side, announcing its purchase of Hexal, a German generics firm, and a sister company in America, Eon Labs, for a combined cost of $8.3 billion.

Novartis already has a generic drug division, called Sandoz, which struggled last year to sell $3 billion-worth of drugs, roughly one-third more than Hexal and Eon Labs combined. The acquisition will make Sandoz the world's largest generic drugmaker and, critically, give it a stronghold in Germany, the world's second-largest generics market. Generic drug sales totalled $30 billion last year in the eight biggest markets and are likely to grow by a healthy 10% a year until 2009, says IMS Health, a data and consultancy firm, as public and private buyers in Europe and America look for ways to cut their drugs bill. Moreover, several biotech drugs now face patent expiry and—regulatory issues in both Europe and America permitting—may soon offer another source of business for Sandoz, which already sells one such “biosimilar” drug in Australia.

Only a few years ago big drug firms, which had bought generics companies in the hope of making easy money, were busy trying to off-load them. There are few synergies between the two sorts of drug manufacture, as generic drug-making is “a gloves-off business compared to the gentlemanly boxing match which is Big Pharma,” says Neal Hansen of Datamonitor, a research firm. In generics, success depends on being cheap enough to keep manufacturing and other costs down, big enough to dominate distribution channels to wholesalers, and fast enough to move in and out of markets as opportunity ebbs and flows. Staying ahead of the competition, particularly the various low-cost Indian firms with their sights on western markets, is a further challenge.

With this week's move, Novartis may make Sandoz big and broad enough to do that, at least for now. But not everyone is happy. Health activists, concerned about rising drug prices and restricted access to medicines, are already grumbling about the incursion of the big drug firms into the plucky underdog business of generics.

Corporate finance in Europe

Putting it about

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Italian financial trouble for France's state electricity company

THINK twice before you offer anyone a put option. That is the lesson that General Motors has just learnt, at a cost of €1.55 billion ($2 billion), from Fiat. Lufthansa, Germany's main airline, is learning it from BMI, a small British one, of which it owns 30% and—if it cannot sell that stake—may yet have to buy out the majority owner for some £225m ($425m). Worst-caught of all is Electricité de France (EDF), France's state-owned electricity generator. It is struggling to escape an Italian deal that could cost it around €4 billion—and maybe more, including the French government's planned float of 30% of EDF itself, due this autumn.

EDF's trouble springs from its 1990s ambitions to move into other European markets while remaining a state-protected monopoly in its own. Its first big acquisitions were British—London Electricity, notably—and have gone fine. But then, with Fiat and others, it set up a holding company, Ital- energia, to bid for Edison, a big Italian power generator. Today, Edison is 62% owned by Italenergia, which in turn is 18% owned by EDF. That 18% hides a sting. In 2002, EDF gave its allies options to sell it their holdings in Italenergia from early this year. They—not least cash-strapped Fiat, with 24.6%—now want to sell.

Worse, at the time of the Edison takeover the Italian government, arguing that Italian power firms were not allowed similarly to buy into France, limited EDF's voting rights in Italenergia to 2%. Yet under Italian law, if EDF were to become the sole owner of Italenergia, it would also have to bid for the missing 38% of Edison.

Edison could be a good buy for EDF. It has just announced a trebling of pre-tax profits in 2004, to €364m. But past spending has left EDF ill-placed, just before a share offering,to raise the billions needed to acquire Italenergia, and then Edison.

True, the €12 billion often cited as the cost to EDF of the two operations is overstated: Edison's €3.8 billion debt could be rolled forward. But debt still figures on balance sheets, and who (certainly not the French government) would lend to buy equity with such limited voting rights?

EDF has been casting around feverishly for a way out. Ithas gone to arbitration in Geneva about the put options, arguing that the 2% limit invalidates them. This may buy it time, but what EDF really needs is a fix. Ideally, it will find new partners in Italy and then stay there, with a fair share of control. But if it cannot get that, it plans to sell out of Italenergia, dealing with the put options as best it can. The affair has now become highly political: it was a topic of discussion when Silvio Berlusconi and Jacques Chirac met in Brussels this week.

One step would be an end to the 2% limit. The European Commission has already challenged this in court, and is awaiting a verdict. Mr Berlusconi could end it voluntarily, especially now the French electricity market is—at least in theory—opening up. Collaboration between EDF and Enel, Italy's

biggest power producer, still 42% state-owned, might help: the two firms' bosses, meeting in Rome on February 23rd, agreed to study projects of common interest, nuclear energy included.

But this would not affect the put options. EDF would still have to find the money to buy out its partners in Italenergia. Could Enel buy them out? Even if it were willing, that would raise antitrust eyebrows. Still, EDF's quest for partners has found several Italian municipal suppliers interested in buying into Italenergia. Endesa, Spain's biggest power company, is also interested in the company. So are two or three private-equity groups.

Whatever the answer, it must come soon. The puts will not wait for ever, and the part-privatisation of EDF will have to unless the mess is sorted out.

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British football

United we stand

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Do business and the beautiful game really mix?

Get article background

Reuters

Or maybe not

ENGLISH football fans are notoriously vocal in their displeasure. On February 23rd, before a big game against AC Milan, Manchester United's supporters staged a protest to reiterate that Malcolm Glazer's long-running bid for Britain's top team of recent years was, er, unwelcome. Mr Glazer, an American fish-oil and property tycoon, has so far spent £180m ($343m) to amass a 29% stake in the club. On February 6th he approached the board with an offer valuing the club at £787m—including more cash and less debt than an offer he made last year that was rebuffed.

Outsiders may wonder why Mr Glazer, according to *Forbes* America's 278th richest man, is not warmly embraced. Alas, he is the wrong sort of billionaire—he wants to use the club to make money, not spend it like Roman Abramovich, a vastly rich Russian, who bought Chelsea in 2003 and won the approval of fans by lavishing £250m on the world's best players.

United is unusual in an abnormal business; it makes a healthy profit (£28m on revenues of £169m in 2004), whereas most clubs teeter on the brink of financial calamity, often relying on rich patrons to keep them going. Yet Mr Glazer sees untapped potential, and hopes to use his experience as owner of the Tampa Bay Buccaneers, an American football (not soccer) team, to exploit it. He bought the Buccaneers for $192m in 1995. Today the team is said to be worth almost $800m.

But the two sorts of football may be as different as business propositions as they are as sports. Last year, all but one of America's 32 National Football League (NFL) teams made an operating profit. Wages are capped, many revenues are shared and the worst teams get the first chance to sign rookie players, keeping sides on a relatively even footing. Profits and success need not go together. Teams that play badly do not face relegation, a financial disaster for sides that fall out of England's soccer Premiership.

Manchester United has been profitable since 1990 and is free of debt largely because it has enjoyed unprecedented success, winning the Premiership eight times and securing the European Cup in 1999. Soaring transfer fees and wages for players ensure that to stay at the top soccer clubs have to spend freely. United uses profits to fund its transfer kitty while nurturing talent through its youth system. Fans fear that money to buy new players will dry up if Mr Glazer

succeeds—though his Buccaneers did win the Superbowl in 2003. They also worry that ticket prices will soar, as they did after he bought the Buccaneers.

How else might Mr Glazer extract more value? He thinks that United's world famous brand is underexploited—the club claims 75m fans globally—particularly in America, despite a relationship with the New York Yankees baseball team. America hosted the World Cup in 1994 in the hope that soccer would flourish there. Major League Soccer, a league of 12 teams, was set up as part of the deal, but crowds now average a paltry 16,000 a game. Yet the game is hugely popular with young Americans, who like to play it, and Latinos, who (currently) care only about Mexican and Latin American teams.

Mr Glazer might also seek a sponsor for Old Trafford, United's stadium. The most profitable NFL clubs own their grounds and reap the rewards of naming rights. Arsenal, one of United's main rivals, has sold the rights to its new stadium to Emirates, an airline, for £100m over 15 years.

Mr Glazer might also try to scupper a TV deal brokered jointly by the Premiership clubs. Top clubs such as United, which earned £34m last year from domestic-TV rights, resent the implicit subsidy to lesser clubs. United reportedly envies Spanish team Real Madrid, which negotiates its television deals individually.

But whatever he did, Mr Glazer would struggle to resist the market power of the top soccer players. In 1994-2003, Premiership revenues grew by 400%. In the same period, however, wages soared by 550%.

If Mr Glazer does buy United—which will depend less on the views of United supporters than on those of two big Irish shareholders, J.P. McManus and John Magnier—he could get a shock. A business strategy that works in American football may not be a winner in European soccer.

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Business in China

China's golden oldies

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Firms start to grapple with how to sell to China's older consumers

AFP

Not targeted at you, grandpa

“ONE mouth, six pockets”, is how the Chinese describe a typical family on the mainland today: a single, precious offspring doted on by its parents and two sets of grandparents. Soon, however, it will be more like six mouths to feed and one pocket to pick up the bill. The success of Beijing's one child policy and the fact that more of China's increasingly well-off are choosing not to have children at all, are combining to produce one of the most rapidly ageing societies ever. This will affect not only the current generation of “little emperors” but the pace of overall economic growth and the fortunes of everyone trying to sell into China's domestic market.

Currently, firms selling to the Chinese mostly focus on the country's youth. This is still a huge market and, unlike their elders, China's young like to try new things and are happier to indulge themselves, more brand-conscious and more receptive to foreign ideas. A survey of 1,200 students in Shanghai and Beijing, by a public relations firm, Hill & Knowlton, found that all of their favourite brands were foreign, led by Nike, Sony, Adidas and BMW.

Old China

Projections by Asian Demographics, a research organisation, show China's total population, which hit 1.3 billion in January, inching up to 1.31 billion in 2019 and declining rapidly thereafter. The number of people aged under 40 may already have peaked at 800m and is forecast to decline by one-third, or 250m, over the next 20 years. By contrast, those aged over 40 will grow by 270m, or more than half, over the same period (with those aged 60 and older growing the fastest). By

2024, they will make up 58% of the population, up from 38% today. By then a full three-quarters of Chinese households may be childless.

As a result, Asian Demographics forecasts average annual increases in GDP of only 4.8% over the next ten years, and of below 4% thereafter. Yet foreign corporations are currently pouring $60 billion of investment a year into China on the basis of 7-8% annual economic growth during the coming decades. If demography really is destiny for China's economy, those investments could prove disappointing.

For those targeting domestic consumers, the rethink should be even more radical as demand for sports shoes, edgy fashions and electronic gadgets may start to decline in relative and, eventually, absolute terms. Increasingly, it will be the “empty nesters” aged 40-60, whose children have left home and who, unlike their parents, have escaped low-paying state jobs, that have the most purchasing power. Many have made money in China's emerging capitalist economy and are status-conscious and keen to enjoy their wealth. Already, they are starting to spend more on travel, eating out and financial services. Mobile phone and car companies have cottoned on, with ads appealing to the self-made. So have some packaged goods companies. Vivian Zhang, consumer products marketing director for L'Oreal China, says that new launches from its Mini Nurse skincare range are being aimed at 20-30-year-old women, rather than its erstwhile target market of 15-20-year-olds, “because young people in China are so price sensitive”.

But most marketeers are not factoring China's ageing into their long-term plans, says Clint Laurent of Asian Demographics, who calls the trend “a demographic earthquake”, while for others “the lightbulb is only just going on.” Tom Doctoroff of J Walter Thompson, an ad agency, says that while the ageing of China is well-known in principle, “none of my clients is talking about it yet.” One marketeer at Kraft in Beijing is concerned that the issue is being ignored: “there is a huge and dramatic change in the demographics in China. We need to take action.” Horatio Zhu, a marketing executive at P&G China, says that the company is increasingly considering the greying issue: “China's ageing population will be a significant market.”

Older Chinese are now starting to spend on pharmaceuticals and health care. Alan Taylor, Asia president for Pfizer, says that China is rising up the agenda of big drug firms; sales of Pfizer's cholesterol-lowering and anti-hypertension medicines are growing rapidly there. Victor Chu, chairman of First Eastern Investment, plans to launch a wellness magazine on the mainland and says that with fewer younger family members to support them, older people may become more self-reliant, creating markets for senior education, leisure clubs and nursing homes.

But today's mature Chinese consumers are not an easy sell. Ageing empty-nesters of tomorrow may have more money, but they are also likely to be careful with it. Expensive cars, furnishings and watches, which signify status and success yet also serve a practical purpose, now tend to sell better than luxury that is merely for display. The current over-60s, who suffered through war and the Cultural Revolution, tend to be the most abstemious of all, with little desire for consumer goods. Mr Doctoroff talks of the “battle weary” who see slogans and ads as an evil. Nor do older Chinese like indulging themselves. The “selflessness of older people is a real marketing challenge,” says Edward Bell of Ogilvy & Mather, an ad agency.

One way to interest the old is to play on financial insecurity, as many insurers are now doing, or on general worries about safety—P&G's Safeguard soap has earned a 20-25% market share by promising to shield a mother's family from germs. Adverts that suggest a benefit for the family seem to work, such as that drinking bottled water while doing *tai-chi* in the park makes you a more energetic grandmother. But, for old and young consumers alike, it is essential to avoid anything that slights the Communist Party, the past or China, as Nike discovered recently when an outcry forced it to pull an ad in which a black basketball player defeated (computer-generated) dragons—a national symbol.

But the best way to reach China's older generation, as most local companies and, increasingly, many foreign ones are starting to realise, may be indirectly, by appealing to the Confucian values of respect for family elders. Nestlé is selling fortified milk powders through adverts that encourage grown-up children to look after the health of their parents. A popular TV spot for Guibiewan, a food supplement, shows a boy eating breakfast watched by his doting father. “When I was young, everyday was like my birthday, but it seems ‘baba' never had a special day,” the voiceover intones. “Every father remembers his son's birthday. But how many sons know their father's? Express your respect with Guibiewan.” Indeed, tapping the older market through the young would surely be an unbeatable strategy, but for the fact that in the China of the future there will be fewer and fewer of them.

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Face value

The $10 billion man

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From The Economist print edition

Landov

Having turned round Nissan, Carlos Ghosn is about to run Renault as well

IT IS said that he could add $10 billion to the market value of Ford or General Motors with a stroke of his pen. But Carlos Ghosn is not about to sign up as chief executive of either firm. Instead, in May, he will become the boss of Renault, France's second-largest carmaker, while continuing to head Nissan, Japan's number two car firm. To ease the transition, this week he named Toshiyuki Shiga as Nissan's chief operating officer.

Although Renault and Nissan have cross-shareholdings and a deep alliance, their relationship deliberately stops well short of outright merger. Perhaps that is why it has been so successful, avoiding the integration pain that has marred, for instance, Daimler-Benz's takeover of Chrysler. In his book, “Shift: Inside Nissan's Historic Revival”, published in English last month, Mr Ghosn says that the strength of the alliance “can be found, on the one hand, in its respect for the identities of the two companies, and on the other, in the necessity of developing synergies.”

Certainly the benefit has flowed both ways since the Franco-Japanese deal was done in 1999. First, Renault rescued Nissan, buying a stake (now 44%) and installing its Mr Ghosn as chief operating officer (and later chief executive). Mr Ghosn turned huge losses into a $7 billion profit and wiped out debts of about $23 billion. This has helped to prop up Renault's sagging profits in recent years. Nissan's latest operating profit margin is about 11%, making it the world's most profitable volume carmaker. Mr Ghosn's reputation soared as he set, then met, ambitious targets.

Now he is to be the first executive to try to run two big carmakers at once. No one has ever revived a carmaker as spectacularly as he has—much less attempted an encore. But then the industry has never seen anyone like the larger-than-life Mr Ghosn. Born in Brazil to a Lebanese immigrant family, he went to a French school in Lebanon before studying engineering at the Ecole Polytechnique in Paris. Few Frenchmen speak four European languages and get by in Japanese as well. He first made his name by turning around Michelin's business in Brazil, then America, before being hired by Renault. He was soon nicknamed "*le cost kille*r" as he revived Renault in the mid-1990s.

In 1999, when Louis Schweitzer—Renault's now soon-to-depart chief executive—decided to link up with Nissan, he knew that Mr Ghosn, already his intended successor at Renault, was the man to put in charge of rescuing the Japanese firm. Mr Ghosn's "Nissan Revival Plan" involved shedding 20,000 jobs and closing five factories, a drastic move in conservative Japan. He also abandoned the cosy *keiretsu* family-of-firms system, a pillar of Japanese industry. Nissan's shares in *keiretsu* suppliers were sold to pay off debt. He slimmed down Nissan's product range, but accelerated development of new models.

A second plan, "Nissan 180", launched in 2002, stands for reversing the company's decline by adding 1m in sales by October this year, achieving an operating margin of 8% and eliminating its debt. With sales in North America topping 1m, Nissan is on course to hit the last remaining target, before a new plan is unveiled in April. Then it will be up to Mr Shiga to hit those targets, under his boss's watchful eye. If he lives up to expectations, Mr Shiga could be in line to succeed Mr Ghosn as chief executive at Nissan within a few years.

Mr Ghosn attributes his success to the way that he works through cross-functional teams. He thinks that when people from different backgrounds work together under pressure they come up with more creative solutions. He proved the value of this technique when he successfully merged Michelin's American tyre business with another firm in the teeth of a recession. His personal style is brisk and direct, but not without warmth.

My other car firm's a Renault

And yet why risk everything by adding to his workload? Both Renault and Nissan have concluded that they have no choice but to share a boss for the next few years. To put a Japanese executive into Mr Ghosn's chief-executive shoes immediately might have signalled a return to the old days of consensual dithering and blind respect for seniority. To put a Frenchman in would have seemed too aggressive. Mr Ghosn's diverse international background made him more acceptable in Japan. He was not seen as an invading Frenchman. Indeed Ghosn-*san* has become a sort of national hero in his adopted country.

Mr Ghosn will devote the first few months in his new role to "re-discovering Renault", mostly in Paris. Then, he says, he will spend 40% of his time in Paris, 35% in Tokyo, 15% in America and the other 10% in places such as China, Thailand, Brazil and Turkey. Needless to say, he has the use of a long-range executive jet. Over time, Mr Ghosn expects the executive teams of both Renault and Nissan to become more international.

America could prove his biggest challenge. First, he has to manage Nissan's headlong expansion there: the firm stumbled last year, with quality problems in vehicles made by inexperienced workers at a new factory in Canton, Mississippi. Mr Ghosn reacted by taking direct charge of the American business, which he will continue to run hands-on for another year, in addition to his many wider responsibilities. He drafted in 200 engineers from Japan to sort out the Canton factory and improve quality. It was a reminder that not everyone can keep up with Mr Ghosn's rapid pace.

Mr Ghosn's predecessor at Renault always dreamed that the alliance with Nissan would help the French brand to re-enter the huge American market, where some foreign car brands make huge profits. But Mr Ghosn seems more cautious. He thinks America poses huge risks. Renault has failed twice there before. But if he can make the transformational European-Japanese alliance a two-pronged success in America, Mr Ghosn will truly deserve to be called the $10 billion man.

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Higher Education

Free degrees to fly

Feb 24th 2005
From The Economist print edition

Already a big global business, is higher education poised for take-off?

Get article background

THERE used to be three near-certainties about higher education. It was supplied on a national basis, mostly to local students. It was government-regulated. And competition and profit were almost unknown concepts. As most education was publicly funded, the state had a big say in what was taught, to how many and for how long. Insofar as it existed at all, competition was a gentlemanly business; few educators thought much about customers, fewer about profit.

How that has changed. Higher education is now international in a way it has not been since the heyday of Europe's great medieval universities—and on a vastly greater scale. Numbers studying abroad were statistically negligible only two decades ago, says Andreas Schleicher, of the Organisation for Economic Co-operation and Development (OECD), a Paris-based think-tank. Now growth is soaring: 2m university students—approaching 2% of the world's total of 100m, according to the International Finance Corporation—were studying outside their home country in 2003. Since the late 1990s the higher-education market has been growing by 7% a year. Annual fee income alone is now an estimated $30 billion. Private, profit-seeking institutions are still a minority, but almost all universities are beginning to compete for talent and money. That is breeding independence of government, both financially and psychologically; inexorably, the state's role is shrinking.

The two big trends, of internationalisation and competition, feed each other. The more that universities tailor their offers to foreign students, the more attractive they become. And the more that students hop between countries, the more their choices count rather than the wishes of a

particular government. German politicians may be willing to tolerate overcrowded universities for political reasons, but they cannot stop German students unhappy with this policy from going to Britain, where undergraduate teaching is much better. Britain's government may be willing to constrain the best universities by capping fees and fiddling with admissions rules to help poorer students gain places—but it cannot stop more of the richest and brightest students turning to America instead. American politicians, worried about terrorism, tightened visa rules—but their universities lost out as the best brains went elsewhere. Just as globalisation has let capital and labour search the world for the best deal, the same is happening with students, academics and donations.

The idea of the student as consumer is a new and subversive concept in much of the world. In Europe and many developing countries, the customer in education for most of the past century has been the government: it wanted the nation's brains educated in the most useful disciplines and in a cost-effective way. Universities may have seen themselves as temples of learning, but the taxpayer was often paying for incense as well as priests and disciples. In short, the system resembled a Soviet-style planned economy. Now that system is facing a transition to what, in effect, is a market. The change will be messy and painful.

Most students, like customers everywhere, are looking for the best deal: how much time and money gains them what benefit? That does not necessarily mean they will favour dull, utilitarian courses. After all, food shoppers seek taste as well as nutrition. A university that teaches mind-stretching subjects of no direct relevance to earning power can still flourish. But to attract the best students it will still have to market its strong points—its excellent teaching and awesomely beautiful buildings, for example.

In much of Europe, though, money does not yet play a role in students' calculations. Where fees are fixed or non-existent, the only real choices are about where and what to study. And even that may not vary much: most undergraduate tuition, in particular in most continental European countries, is similarly skimpy.

So the choosiest students—meaning the brightest, most ambitious and richest—often go abroad. Some 112,000 students from elsewhere in the European Union study in Britain already. But the fastest growth in students is coming from China. Around 38,000 study in Britain now—the result of 50% annual growth since the late 1990s. The British Council, a state-funded marketer of British culture, reckons the number could double by 2010. Chinese students come to Britain because their own country's fast-expanding system of higher education still lacks the quantity and quality they seek. The OECD estimates that the number of Chinese university students will be 16m this year, up from 11m in 2000.

In the recent past, more went to America—roughly 60,000 annually—attracted by academic excellence and generous scholarships. But applications for 2004-05 plunged—by 45% in the case of graduate students from China, and 30% for those from India. That was chiefly because of tougher visa rules, which the American government is now, belatedly, partially relaxing. But growing competition was also a factor. The number of students from China in Australia, for example, rose by 47% in 2003, and those from India by 52%, although overall Australia's overseas-student numbers dropped by a tenth. France's *Grandes Ecoles* (specialist independent postgraduate outfits) such as ESSEC, a business school, are competing for the same market, with targeted courses taught in English. So is the Netherlands.

Brains without borders

Foreign students are usually charged higher fees, but they are not just cash-cows. Universities like their motivation, and the cosmopolitan flavour they bring to campuses. The better your students,

the better your reputation, and hence your chances of attracting more good students. Even Oxford, Britain's oldest university, is planning to market itself aggressively overseas. In the past, says John Hood, its new vice-chancellor, “we waited for foreign students to approach us.”

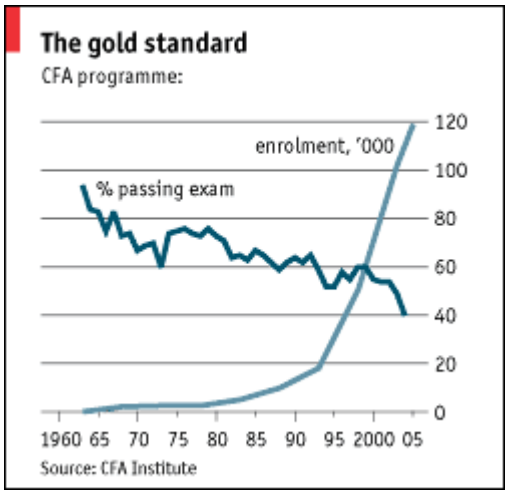
But what the customers want may not be what the universities are used to providing. British universities are scrambling to adapt everything from teaching practices to student social life to meet the needs of students from different cultures and backgrounds. Arrangements that suit some, such as lively classroom discussions, can jar for others from a more deferential academic culture, for example.

Some changes go much deeper. Increasingly, British and Australian universities are opening campuses abroad in places such as China, Malaysia and Dubai, to teach, they hope, more foreign students, more cheaply. The University of Texas is increasing its ties to London's University College, buying a large building on the campus, and swapping students, staff and know-how. Texans like the fun of London; Londoners like lavish Texan budgets.

There are doubts about the profitability of some of these ventures—in particular, some British universities have found themselves landed with expensive commitments from over-enthusiastic investments. But however such cross-border education is delivered, the important trend is that the traditional bundle of services provided by a university is unravelling.

In the past, the same people taught and examined their students. For the most part, if you wanted a Cambridge degree you studied at Cambridge. But from a business point of view, that represents a wasted opportunity. A university can examine far more students than it actually teaches, and with a strong brand it can trade on its reputation for quality by licensing other people to teach its courses. Chicago's Kellogg business school, for example, teaches around half of its students through local partners in places such as Israel and Hong Kong. It controls the curriculum, inspects standards and issues qualifications. But the actual teaching is outsourced and offshored.

The purest example of this comes from the world of professional vocational training—where governments' influence is at its weakest, and consumer demand is most focused. The Chartered Financial Analyst (CFA) qualification is roughly equivalent to a specialised postgraduate finance degree, including a mixture of economics, ethics, law and accountancy. It is much liked by employers in financial services. Whereas there are tens of thousands of finance degrees available around the world, ranging from the excellent to the worthless, there is only one CFA, managed and examined by an American association of financial professionals, the CFA Institute. It used to be just an American qualification. But explosive growth (see chart) has made it, in effect, a global currency.



To take the CFA, candidates need only to register, pay fees of $1,455 and turn up to the one of 274 test centres around the world. Most of them study with private providers, who use the freely accessible curriculum and reading list. But some 40 universities are now teaching it as part of their postgraduate courses.

So, just like their counterparts in manufacturing industry 20 years ago, rich-world universities are concentrating on businesses that make money, dumping lines that do not and shifting production to cheaper markets abroad. Last month Oxford unveiled plans to cut the number of loss-making undergraduate places for home students (where the government sets the price), and increase the number of graduate and foreign students (where the fees are deregulated). Other British

universities will follow soon.

In bed with business

Such universities are not only operating more like businesses. They are also operating more closely with them. Kaplan, a big education company owned by the same firm that owns the *Washington Post* newspaper, has done a deal with Nottingham Trent University in Britain to run a foundation college for overseas students. BPP, a firm that is Kaplan's big rival in Britain, has done deals with British universities so that people taking its professional exams can gain academic postgraduate degrees at the same time.

There are two big dangers here. One concerns quality. At the bottom end of the education market, qualifications reflect only payment—at worst, through bribes. Corruption in Russia has degraded the value of degrees from its once-famous universities. Foreign universities that have set up there are sometimes little better.

That is not a new problem. But globalisation and competition make it much harder to control. Who is to say that a minor British university's outpost in, say, Dubai, offers degrees that are as good as the home institution's? For some degrees, such as MBAs, there are credible international rankings. But sorting out the relative rigour of every course from every university is impossible. Such confusion creates temptation, particularly when it is combined with the need to keep customers happy. A university that gives failing grades to a large number of fee-paying students puts its future revenues at risk.

In theory, universities have a long-term interest in protecting their brand. But quality control is one of the great unsolved problems in education, even at Harvard, which, thanks to its reputation and a $20-billion endowment, could hardly be better buffered from the pressures of the market. Certainly government regulation does not seem to have helped much: British universities are subject to a detailed and intrusive form of inspection from a body called the Quality Assurance Agency, lovingly known as the KGB of higher education. But it is hard to find anyone who says that the steady rise in first-class degrees reflects only increased student brilliance.

This is a further reason for separating teaching and examining. There have been no allegations of dumbing-down and grade inflation with the CFA, where the pass rate has dropped from over 70% in the 1970s to only 40% now. Jeff Diermeier, the head of the CFA Institute, says that business schools struggle to match the time that his institute can devote to keeping the curriculum up to date and rigorous. The higher-education marketplace of the future may need more such central bank-like outfits as guardians of standards.

State of play

The second big problem is government interference. In many countries, the idea that the state should control higher education is barely challenged. In much of continental Europe, even charging tuition fees or allowing universities to compete are seen as dangerously radical notions. After years of agonising, Germany agreed only last month to let its universities charge fees.

Government intransigence can be a big obstacle to any change in higher education. The most extreme example is Belarus, which has simply closed independent universities that had set up there and refused to issue exit visas to students wanting to enrol abroad. The Belarusian leader, Alexander Lukashenka, says that such study “poisons the mind”. In South Africa, the government has thrown up so many obstacles that Bond University, a big Australian investor, has pulled out

altogether.

Education is on the agenda of the next round of international trade talks, but changes are unlikely. As with other forms of protectionism, national governments claim that they are acting in the interests of consumers. Yet the more the market grows, the less tenable that position becomes.

Despite all this, the private and independent higher-education sector is growing fast. Even in America, where for-profit outfits have been plagued by scandal, expansion is continuing. The University of Phoenix, America's largest private university, which specialises in the high-pressure marketing of online and part-time degrees, is expanding overseas. It already operates a small campus in China and plans to open in Mexico. Kaplan has bought Dublin Business School, which also has a campus in Dubai and is planning new ventures in Europe. The University of Chicago business school is opening a campus in London—the first big American university to do so. BPP is applying to the Privy Council, a medieval relic that regulates such things in Britain, to award degrees.

BPP's success in attracting 50,000 part-time and 3,000 full-time students has already made quite a dent in the public-sector universities' customer base, although the company is regarded with disdain by many of its competitors. One London vice-chancellor, whose university's postgraduate courses are seen by BPP as a prime poaching target because of their low quality and high price, affects not even to have heard of BPP's existence. With degree-awarding powers, that should change. BPP is also expanding fast abroad.

Opening for business

Regulatory framework for foreign providers of higher education

No regulations: Foreign providers free to operate without seeking permission	Austria, Czech Republic, Denmark, France, Indonesia, Mexico, Nigeria, Portugal, Russia
Liberal: Minimum conditions only, eg, outsiders must be recognised in home country	Argentina, Bahrain, Estonia, Finland, Latvia, Netherlands New Zealand, Norway, Sweden, Switzerland, Britain, USA*
Moderately liberal: Formal rules, eg, on curriculum and registration, not burdensome	Australia, Bangladesh, China, Egypt, Hong Kong, Hungary, Israel, Singapore
Becoming more restrictive	India
Liberalising	Japan, South Korea
Very restrictive	Bulgaria, South Africa, Belgium (francophone), Greece

Source: Observatory on Borderless Higher Education *Varies by state

Although governments' attitudes vary (see table), only a totalitarian state could maintain complete control of higher education. The fastest change will be at the margins, driven by students seeking alternative offerings. Wrong-headed governments risk not only losing international market share, but also their country's best students.

So the direction is clear: competition can raise standards for home and foreign students alike, and the speed with which it emerges depends to a large extent on universities' freedom from government. How fast that comes will depend on university management, which is often strikingly slow and bureaucratic. The wet breath of government on administrators' necks is partly what makes decision-making soggy—but state control is not the only culprit. Even rich, independent American universities can be badly run.

If governments want to change that, allowing failure to bring its natural consequences would be an excellent place to start. Currently, weak universities do not fail in the way that their poor performance warrants. An ailing state-financed university may be shrunk, or have its management changed, but it will not go bust or be bought in the way that, say, a for-profit outfit would. It is

difficult for a successful university to take over an ailing one, or for two complementary campuses to merge.

The challenge of change

Running universities in a way that suits a competitive environment may mean some uncomfortable changes. But it does not mean necessarily adopting a corporate model, with a board of directors and a chief executive. A non-profit university exists, ultimately, so that its members can teach, think and learn. Making them into “staff”—mere shopfloor workers on an academic production line—risks losing the ethos which has given universities their character and value.

There is no single answer to this. But the pressures of the market are creating an increasingly segmented system. The clearest opportunity for profit is in teaching, either in co-operation with existing universities or in competition with them. That will be strongest where student choice is strongest—ie, courses whose prices are deregulated, for which there is no state-subsidised alternative and whose connection to future earning power is strongest. Business schools and professional training are already examples.

The danger for old-style universities, particularly in Britain and continental Europe, is that government subsidy and control continues at a debilitating level, but is not quite bad enough to be intolerable. That will not just harm universities in the state system. It will also distort the market. Competition and internationalisation in education have already benefited a wealthy, brainy minority. Plenty more students should gain similarly in future, if only universities are free to fly.

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China's stockmarket

A marginalised market

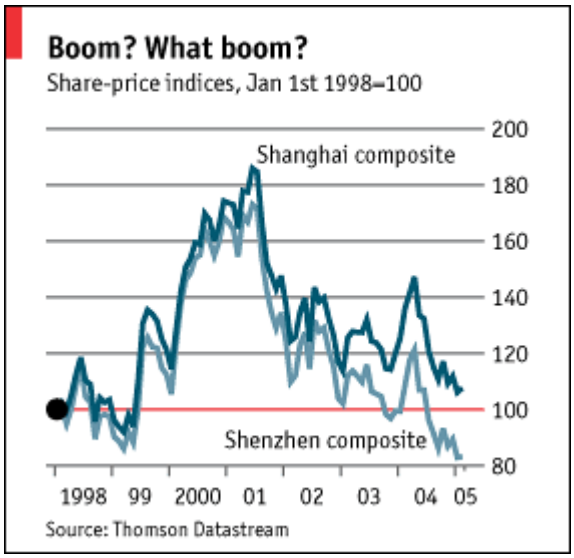
Feb 24th 2005 | HONG KONG AND SHANGHAI
From The Economist print edition

AP

The reform of China's neglected stockmarket is just as urgently needed, and just as difficult, as that of its banks

Get article background

"WHY do you want to visit the trading floor?" smiles Fang Xinghai, deputy chief executive of the Shanghai Stock Exchange. "There is nothing to see." He is right. But this has little to do with the switch from open-outcry to electronic share-trading to which he refers, because the exchange simply replaced traders' paper slips with computers and kept everyone on the floor. The desks are mostly unmanned, however, or given over to card games. An elegant gong to greet new listings, the equivalent of New York's famous bell, gathered dust for months until a ban on initial public offerings (IPOs) was lifted in January. The only movement is on electronic wall charts tracking prices and volumes—and that is resolutely downwards.



The sense of paralysis at the heart of China's most vibrant city is easy to explain. The mainland's stockmarket is in a dismal slump. On February 1st, the domestic A-share indices in Shanghai and on the junior exchange in Shenzhen hit their lowest levels for more than five years. Even after recovering a little since, they are still down by more than 40% and 50%, respectively, from the record highs of June 2001 (see chart).

This bear market lingers despite the country's booming economy. The inattention of China's leaders to the stockmarket contrasts starkly with their obsession with bank restructuring—because the banks' troubles are easier to understand, hazards Mr Fang. But the neglect of the equity market has a high price. China has private savings of at least 12 trillion yuan ($1.4 trillion) sitting unproductively in the banks. The country also has thousands of entrepreneurial firms crying out for funds. If the stockmarket were allowed to bring the two together, it could, through better allocation of capital, both raise the efficiency of the economy and help maintain its growth rate. Instead, much of that fallow cash has found its way into property, inflating a bubble. Better still, developing China's capital markets would reduce the primacy of the banks in the financial system, making their reform easier.

Such thinking is gradually catching on in Beijing, spurred, no doubt, by the fact that share prices are so low that the government is worried that the country's 70m disgruntled, mainly urban, retail investors could take to the streets. “Investors don't have a mature understanding of the stockmarket. All hell breaks loose when the market goes down,” says a senior Hong Kong banker.

This explains a sudden flurry of initiatives to support the market. On February 21st, the China Securities Regulatory Commission (CSRC), the securities watchdog, and the Ministry of Finance announced a fund, worth up to $6 billion, to compensate investors for the bankruptcy or incompetence of local broking firms. Last weekend, regulators launched a test allowing commercial banks to set up mutual-fund arms and the week before selected insurers received the green light to invest up to $7 billion in shares. Meanwhile, the Bank of Communications, the fifth-largest lender, is said to be planning to split its IPO between Hong Kong and Shanghai. Although the bank refuses to comment, this would be a boost for the domestic market. China's better firms have so far eschewed domestic listings in favour of foreign ones.

The most intriguing rumour, hotly denied by the CSRC, is that Shang Fulin, its uninspiring head, is to be replaced by Huang Qifan, the vice-mayor of Chongqing, a big western city. Mr Huang, a former aide to Zhu Rongji, prime minister between 1998 and 2003, has proved his mettle in a few finance-related posts, and is celebrated in Shanghai for overseeing the development of Pudong, its

financial district. He is also not afraid to speak his mind. Asked about a crackdown by Jiang Zemin, then China's president, on Shanghai's sleazy bars, Mr Huang said that the city didn't have enough and that visitors were short of entertainment. Under him, the currently hide-bound regulator might well undertake a long-overdue root-and-branch reform of securities markets.

It is this, not the current diet of piecemeal measures, that is needed to deal with a series of complex, interlocking problems. When the government launched Shanghai's exchange in 1990 (and Shenzhen's a year later), it regarded the stockmarket primarily as a mechanism to impose discipline on the public sector and to raise a bit of useful cash. So it sold overpriced minority stakes in mostly badly run state firms, confident that investors, with few alternatives and enamoured of China's growth prospects, would buy them anyway.

For several years they did. And with the state able to rig the market as regulator and controlling shareholder and through government-linked brokers, prices soared, reaching 60 times earnings in the summer of 2001. At that point, the government got greedy and tried to sell its remaining holdings, a plan that started the current decline. Even though it was hastily withdrawn, the threat of another mass sell-off of state shares continues to spook the market.

Four years after the first sell-off, a full two-thirds of the market's $460 billion capitalisation remains tied up in non-tradable or “legal person” shares held by state-controlled entities. This continues to distort valuations. The average A-share trades at a still-expensive 25 times earnings, even when precisely the same asset, listed in Hong Kong or New York, is priced at half that. Captive domestic investors are disillusioned, while any Chinese enterprise that can do so seeks a foreign listing.

And the market's inexorable decline has pole-axed the Chinese broking industry, which not only guaranteed investors double-digit returns but also often speculated corruptly with their funds. Most of the 130-odd securities firms are, in effect, insolvent, says Stephen Green, an economist at Standard Chartered in Shanghai and author of “China's Stockmarket” (published by *The Economist* and Profile Books). Only ten to 20 should survive.

Mr Fang says there is a way to solve this problem. The essential first step is to remove the leaden overhang of non-tradable shares. The trick is doing this without further bilking minority shareholders who bought their holdings at inflated prices: simply flooding the market with the state's shares would drive prices down even further. Mr Fang says simply that “we have to compensate investors for their losses”, though the central government will probably be loth to find money for this when it is spending huge sums recapitalising China's banks. Hu Xiaodong, head of the Shanghai office of Martin Currie, the biggest foreign institutional investor in A-shares, with $1 billion at stake, suggests issuing “rights certificates”, giving existing shareholders the right to buy “legal person” shares at a big discount.

If this issue were resolved, says Mr Fang, the stage would be set for further beneficial developments. Restrictions on IPOs, such as the recent ban, could be removed. He thinks that companies should be allowed to list on the basis of merit rather than government connections. That ought to improve China's woeful corporate governance, because only the best firms would attract investors. It would also encourage firms to list at home rather than abroad. After that, the focus could then switch to consolidation among the brokers and the development of equity derivatives and a proper corporate-bond market.

Two things in particular could help the brokers. Allowing them to buy foreign shares would teach them to make better judgments at home, says Mr Hu. And encouraging foreign investment would bring in foreign expertise and money. Here the CSRC has already made a start—although a mixed one. In December it let Goldman Sachs buy 33% of Gao Hua Securities, with management control and the right to raise its stake. But to get approval Goldman had to bail out investors in an

unrelated broking firm to the tune of $60m.

Mr Fang says that there is a consensus within the CSRC that real reform must begin with the non-tradable shares. Shares in Shanghai Automotive, a carmaker, Handan, Wudan and Angang (all steelmakers), and Yangzi and Qilu (in petrochemicals) have risen on the expectation that they will be first to be fully privatised. An announcement looks imminent.

However, for the privatisation plan to work, rising share prices are required. On February 23rd Baosteel, a respected steelmaker, delayed a $3.7 billion share offering in Shanghai because of the weak market—hardly a vote of confidence. “We are in a bind right now,” admits Mr Fang. “In a declining market, we can't solve the problems and if we don't solve the problems the market will continue to decline.”

If the fillip that stocks have had over the past few days is sustained, the conditions for fundamental reform might soon be right. The appointment of Mr Huang as head of the CSRC would surely help. But more momentum is needed for China's stockmarket to escape its Catch-22.

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Financial markets

Collywobbles

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From The Economist print edition

This week, America's financial markets saw a few ghosts, and shivered

THE markets were looking for an excuse to turn tail, and this week they got more than one. Spooked by fear of inflation, high oil prices and a revolt by Asia's central banks, bonds, the dollar and shares all headed south, in that order. By the evening of February 23rd, some poise had been regained. But the ease with which things went wrong—albeit just a bit—has left many wondering just how robust is the consensus view that all's for the best in this best of all possible financial worlds.

The problems started last week, when Alan Greenspan, the chairman of the Federal Reserve, professed himself puzzled by the “conundrum” presented by the flattening yield curve: the more he raised short-term rates (six times since June 2004, by 25 basis points on each occasion), the more already-low long-term rates fell. Markets don't like it when the man who sets interest rates says he doesn't understand them. The gloom deepened when new figures on February 18th showed that core producer-price inflation was at its highest in six years: could Mr Greenspan be behind the curve on inflation? Bond prices headed smartly down, as investors suspected that the Fed's chairman might see a solution to both problems in lifting interest rates more smartly up.

The next blow fell on February 21st, when South Korea's central bank, with most of its $200 billion of foreign reserves in dollars, said it planned to diversify away from the currency. Then, with Europe and America gripped by a cold wave, the price of a barrel of oil for April delivery rose back above $50. The scene was set for a sell-off, and on February 22nd the S&P 500 fell by 1.5%; the

dollar lost 1.1% against the euro and the same against the yen; long-dated Treasuries continued to fall in price; oil futures rose still more and so did gold futures. Stockmarkets around the world, mostly in sympathy but with problems of their own, slid too.

The sweepers came in overnight to clear away the mess, and by midweek things looked better. South Korea's central bank made it clear that it did not intend to sell dollar assets, just to buy fewer in future. Like other central banks, it has been quietly taking on fewer bonds from the American Treasury and more from other issuers for some time anyway. A mild increase, of 0.2%, in core consumer prices (ie, not counting food and energy) in January calmed—perhaps temporarily—the previous week's fears of renewed inflation. Share prices climbed part of the way back; the yield on Treasury long bonds dropped again; the dollar strengthened against both the euro and the yen; and oil and gold prices slipped back a bit.

How important was this week's stumble? On the numbers, not very: this was no 1987-style rout. But there has been so little volatility in share prices in the past two years that any sharp change is unsettling. The VIX (or volatility index, alias the “investor fear gauge”) is a contract on the Chicago Board Options Exchange (CBOE) that tracks the implied volatility underlying the S&P 500. As the chart on the previous page shows, volatility used to be high, touching 45 in August 2002 and then a lower peak of 34 early in 2003. Since then it has headed downwards. On February 22nd, the index jumped by 17.5%—and still only just cleared 13. Mark Hulbert, a columnist for MarketWatch, an online news service, points out that, if historical levels of volatility prevailed, we should expect the stockmarket to gain or lose 2% once a month or so. This week's fall, though the largest in 21 months, was nothing to write home about.

Investment analysts have two theories on volatility and market performance, and unfortunately they contradict each other. One lot believes that low volatility suggests share prices will fall, as it means that investors are too complacent. They have been predicting a market meltdown for some time. The other group believes that low volatility suggests rising markets, as well-informed investors are rightly confident. The chart supports the latter: while the VIX has been having a near-death experience, share prices have headed up.

What matters most for share prices—or ought to—are the discounted value of companies' future earnings and the relative attraction of other investments, both of which reflect the state of America's and the world's economy. The reason for this week's wobble is that America's two greatest vulnerabilities—its dependence on one set of foreigners to buy its bonds and on another to sell it oil—were exposed side by side. VIX or no VIX, not for the last time.

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Global liquidity

Saturated

Feb 24th 2005
From The Economist print edition

The world's giant money printing-press

HOW loose is the world's monetary policy? One gauge is that real interest rates in America and other countries are still negative. Another is that global liquidity has been expanding at its fastest pace for at least 30 years. This deluge largely reflects the combined effects of American and Asian monetary policies.

Our measure of "global liquidity" consists of the sum of America's monetary base (notes and coins plus banks' reserves held at the Federal Reserve) and foreign-exchange reserves held by central banks around the world. In both 2003 and 2004 this rose at annual rates of more than 20%. In no other two-year period since 1975 has liquidity increased by so much (see chart).

America's easy-money policy of recent years has spilled abroad. Low American interest rates have encouraged large inflows of capital into emerging economies, especially in Asia, as investors have sought higher returns. Central banks have then tried to resist the consequent upward pressure on their currencies by buying foreign exchange, mainly dollars. When a central bank does this, it credits domestic commercial banks with deposits (ie, the monetary base expands) encouraging banks to lend more.

Central banks are supposedly the guardians of money. Yet between them they may have created the biggest liquidity bubble in history.

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Japan's banking mega-merger

At last, a price

Feb 24th 2005 | TOKYO
From The Economist print edition

That was the easy part

Get article background

EVER since they announced their merger plan last July, shareholders in Japan's second-biggest bank, Mitsubishi Tokyo Financial Group (MTFG), and the fourth-biggest, UFJ, have hounded executives with a single question: what's the price? On February 18th, investors at last got an answer, as well as some replies to other pertinent inquiries about the putative benefits of the banks' merger. If this goes ahead as planned on October 1st, it will create an institution with assets of ¥188 trillion ($1.8 trillion), more than any other bank in the world. The price looks certain to be high enough to ensure the deal goes ahead. The combined bank's profitability, however, looks likely to be disappointing.

Under the agreement, every 100 UFJ shares will be worth 62 MTFG shares. That puts a value of ¥3 trillion or so on the junior partner, slightly more than investors had expected, and should put paid to any lingering chance that Sumitomo Mitsui Financial Group (SMFG), which made a rival offer for UFJ last August, will be able to block the deal. UFJ's managers, who signed an agreement with MTFG before settling on a price, have rebuffed SMFG's advances, with the help of the courts. Although SMFG has not yet formally withdrawn its own, more generous, offer, it may now turn its mind to a different big merger. It has been talking to Daiwa Securities, Japan's second-biggest broker.

UFJ had to do a deal with somebody. It was far behind Japan's other three big banks (MTFG, SMFG and Mizuho, currently the largest) in cleaning up bad loans, which were over 9% of its loan assets at the end of September. A year ago, regulators exposed a brazen attempt by UFJ staff to mislead them about the health of the bank's borrowers. The only way UFJ could expect to meet its bad-loan targets legitimately was to team up with a stronger partner. In September, MTFG injected ¥700 billion into UFJ in anticipation of the takeover, helping UFJ to write off some duff loans.

As far as UFJ's managers are concerned, a deal with MTFG has something else to be said for it: not too many job cuts. Both UFJ and SMFG are active in consumer banking and small-business lending, and boast strong branch networks around Osaka and Nagoya. By joining forces with MTFG, which is based in Tokyo and whose business is weighted more towards corporate clients, UFJ's bosses have chosen a partner with fewer overlaps.

In their latest plans, MTFG and UFJ do promise some savings. After the merger they will trim 6,000 jobs from their combined total of 78,000 and will close 300 retail and corporate branches (including 30 outside Japan) out of just over 1,400. These and other changes, they say, will cut costs by ¥240 billion a year within four years. Yet Takeo Hoshi, an economist at the University of California at San Diego, and Anil Kashyap, of the University of Chicago's business school, have looked at UFJ's previous job cuts, after it was created through a merger of three banks in 2001. They found that it made only cosmetic reductions. It shed 3,600 full-time jobs at its core banking

units and headquarters, but added just as many at its subsidiaries. The holding company's part-time headcount rose too.

Managers at MTFG and UFJ, meanwhile, reckon that their bulk and complementary businesses will allow them to boost revenues at home and abroad. They say they will make net profits of ¥1.1 trillion in the year ending in March 2009, for a return on equity (ROE) of 17%, roughly double the current number. By issuing more credit cards and other consumer loans, selling lots of investment trusts and annuities, and cashing in on higher interest rates as the economy improves, they hope to triple their operating profits from retail banking, whose share of the total is supposed to rise from 15% to 35%.

The banks still expect to earn half their operating profits from corporate lending. Their forecasts look optimistic here too. They predict a 40% increase in loans to small and medium-sized firms, for example, as demand for credit finally recovers. But there is no sign of a recovery yet: lending in Japan is still shrinking, although less quickly than before. Three-fifths of all loans earn less than 2% interest, and the share is rising.

“They still are mostly trying to make money from basic borrowing and lending and the loan spreads are microscopic,” says Mr Kashyap. “It is highly unlikely that this formula will get them close to their ROE target.” Japan's banks are more stable these days, but they are still a long way from making serious money.

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Deutsche Börse

Seifert under fire

Feb 24th 2005
From The Economist print edition

How to alienate shareholders

FOR the second time, a bid by Deutsche Börse for the London Stock Exchange (LSE) is turning nasty. When Werner Seifert, chief executive of the German exchange group, first tried to buy its British rival, in 2000, his effort failed amid chauvinistic mud-slinging with the LSE's owners. This time Mr Seifert's own shareholders are trying to ruin his plan. On February 21st, the day Deutsche Börse reported its annual results, one of its biggest shareholders threatened to try to unseat its entire supervisory board.

TCI, a hedge fund that says it is Deutsche Börse's second-biggest shareholder, with a stake of 7.3%, wants the company's owners to vote on the proposed bid for the LSE. Yet under German corporate law Mr Seifert is not obliged to consult shareholders at all; a nod from the supervisory board will do. In Britain or the Netherlands, by contrast, a vote would be compulsory. So the fund is preparing a shareholders' rebellion. The plan is to find enough allies to bring down the supervisory board at the annual general meeting on May 25th. A simple majority would be enough.

To TCI and Atticus Capital, another big shareholder, the proposed takeover does not make commercial sense. They think that Mr Seifert is offering too high a price for the LSE—£1.35 billion ($2.4 billion)—and that his estimates of the likely cost savings are far too high. Moreover, they say, Rolf Breuer, head of the exchange's supervisory board, is biased. Mr Breuer is also boss of the supervisory board of Deutsche Bank, which owns 6.8% of the LSE. “This is an empire-building exercise,” says Christopher Hohn of TCI.

The funds think they could speed up the slow-moving reform of German corporate governance and strengthen shareholders' rights if they succeed in May. As for Mr Seifert, he shows no sign of trying to pacify his critics. During the discussion of Deutsche Börse's annual results on February 22nd, he did not even allow shareholders to put questions to him by telephone. Three months ago a couple of hedge funds annoyed him with their questions during a similar conference call.

Deutsche Börse argues that TCI and its allies are merely pretending to campaign for reform of German corporate governance when in fact they are interested in making a quick buck. The funds want Deutsche Börse to buy back shares and return money to shareholders. That is not a long-term strategy, says the company. In its view, stock exchanges must try to grow as much as possible, because the fixed costs of running a stock exchange are high but variable costs are low.

Should TCI and its allies unseat, or at least unsettle, Deutsche Börse's top brass, that would cheer Euronext, an operator of several European exchanges. This month Euronext put its own case for bringing the LSE into its fold. It promised greater savings than Deutsche Börse, but did not name a price. In a similar battle (with the LSE) for the London International Financial Futures and Options Exchange in 2001, Euronext also kept quieter than the competition—and was the surprise

winner.

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Russia's finances

Blowing it

Feb 24th 2005 | MOSCOW
From The Economist print edition

The fiscal and political implications of a row over Russia's oil revenues

AFP

Putin ponders pensioners, Kudrin counsels caution

Get article background

FOR those who think that Russia is still capable of pursuing sensible economic policies, the clearest evidence is Alexei Kudrin's handling of the country's oil windfall. How sensible the finance minister has been, they say: what a contribution he has made to Russia's impressive economic stability. And yes, the petroroubles have been managed prudently. Until now, that is.

Set up in January 2004, Mr Kudrin's “stabilisation fund” receives extraction and export-tax revenues that accrue when the price of Urals blend oil tops $20 a barrel, plus budget surpluses (Russia has run a surplus for the past five years). As with similar pots in other resource-dependent countries, the money is there as insurance against a fall in the oil price. Russia's fund also stands guard against a repeat of the devastating default of 1998. It helps ease upward pressure on the rouble: the cash is now supposed to be invested in European and American bonds. It has also helped to combat inflation—although hitherto restrained government spending and the flight of capital after the government brought Yukos, once the country's biggest oil company, to its knees last year have also played a part.

The fund's rules say that the first 500 billion roubles ($18 billion) are untouchable. The high price of oil pushed the balance beyond that mark in December, much sooner than expected. Apart from a dollop that was used to plug a gap in the state pension fund, the extra cash has so far gone only on reducing debt. All the money that Russia still owed to the International Monetary Fund, $3.3

billion, was repaid at the end of January.

Such prudence contrasts favourably with, say, Venezuela's oil-fuelled populist splurge. In line with the urgings of the IMF and the OECD, Mr Kudrin wants to save more for a rainy day by raising the 500 billion rouble limit (though he also plans to raise the $20 threshold a bit next year). With luck and continued good judgment, by the end of the decade Russia might no longer owe much to foreigners.

Ah, but will the prudence continue? Some economists are sceptical about oil funds, essentially because they think politicians will inevitably be tempted to squander the loot. They note gloomily that only Norway's scheme is run responsibly—and only because Norway itself is the epitome of responsibility. Alas, there are signs that Russia may yet give the sceptics more reason for doubt.

Since last autumn, some ministers have been itching to get their hands on the fund's extra cash, to spend on the armed forces and for other ideas. Mr Kudrin has resisted them, a rare accomplishment for him and his few fellow liberals in the government, who were unable to avert the Yukos debacle and have not been able to push through structural reforms even though the country is flush.

However, Mr Kudrin has been weakened by unrest over a big reform that was implemented but botched. Thousands of pensioners and others took to the streets across the country in January to protest against the replacement of in-kind benefits by stingy cash subsidies, in the biggest show of popular discontent since Vladimir Putin became president. Mr Kudrin may yet be sacked for his part in the embarrassment.

Cash from the fund may now be diverted to help pacify the protestors. Mr Kudrin himself has given contradictory signals. Mr Putin seems torn: he seems to regard external debt as a sort of national humiliation, but he is also rattled by the protests. Even if the fund is not tapped now, there are signs that some of it will be used to finance a tax cut next year.

The government overshot its inflation target of 10% in 2004 (the actual rate was 11.7%); 2005's goal, 8.5%, looks optimistic. Too many ministers seem to have forgotten the perils of inflation. The row over the fund has become a symbol of their competing priorities: raiding it, or sacking Mr Kudrin, might suggest that sensible economic policy is not top of Mr Putin's list.

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The president seems to be betting that a successful restructuring will increase domestic investment from its current level of 17% of GDP to more than 20%, enough to sustain impressive growth throughout the economic cycle. Only time will tell if the Argentines cheering his “patriotic” intransigence towards the international financial community are willing and able to shoulder the burden themselves.

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Argentina's debt restructuring

Screeching to the precipice

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From The Economist print edition

The Argentine government talked tough and won. For now

WHEN Argentina started restructuring its $81 billion-plus-interest in defaulted debt last month, it was billed as the biggest game of chicken in financial history: the government vowed not to improve its offer, worth broadly 30 cents on the dollar, and bondholders promised never to accept it. Now it seems that despite their threats of lawsuits, asset seizures and collective rejection of the Argentine ultimatum, the creditors swerved practically before they got into the car.

Most analysts were predicting that at best 70% of bondholders would accept the offer, which closes on February 25th. As *The Economist* went to press, about half the outstanding debt had been exchanged, retail investors were queuing to hand over more and some big institutional investors planned to follow suit on the last day. Most now reckon that at least 80% of creditors will participate. That looks high enough to persuade the IMF to bless the deal and also to trigger “exit consent” clauses in the bonds that could make them virtually illiquid for those who choose not to take part.

The success of the government's negotiating strategy—which was not to negotiate at all but to offer a take-it-or-leave-it package instead—is a political triumph for Argentina's president, Néstor Kirchner. As his Peronist party heads into legislative elections in the autumn, he can claim that he faced down the foreigners and won. It should provide the country with short-term economic advantages as well.

Standard & Poor's, a rating agency, has said that after the restructuring it will rate Argentina a B-minus debtor, a status that Ecuador did not attain for five years after its default. Foreigners will probably not want to lend to the Argentine government directly for a while after taking a 70% loss—twice the average haircut in recent sovereign defaults—and the government will still be left with a public debt equal to 80% or more of GDP. But the country's new credit rating should increase access to capital for its best-behaved companies. Other immediate benefits include a smaller chance that lawsuits against the government will succeed and a better relationship with the IMF. The Fund might allow Argentina more time to repay the $14 billion it owes the IMF and soften the conditions that govern it.

Most important, greater confidence in Argentina (and its soaring equity markets) may bring home some of the $150 billion or so its citizens hold abroad. The return of flight capital is a practical necessity for the country to keep growing. Its galloping GDP growth, 8.8% in both 2003 and 2004, was largely due to high soyabean prices and the use of capacity left idle by the economic collapse in 2001 and 2002. Commodity prices have already declined from their peaks and capacity constraints are likely to be felt again this year, so fresh capital will be needed. Mr Kirchner has hardly wooed external direct investors: his government is yet to lift the freeze imposed during the crisis on rates charged by most foreign-owned utility firms. This has exacerbated worries that contracts in Argentina are not worth the paper they are printed on.

The president seems to be betting that a successful restructuring will increase domestic investment from its current level of 17% of GDP to more than 20%, enough to sustain impressive growth throughout the economic cycle. Only time will tell if the Argentines cheering his “patriotic” intransigence towards the international financial community are willing and able to shoulder the burden themselves.

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Economics focus

Steering by a faulty compass

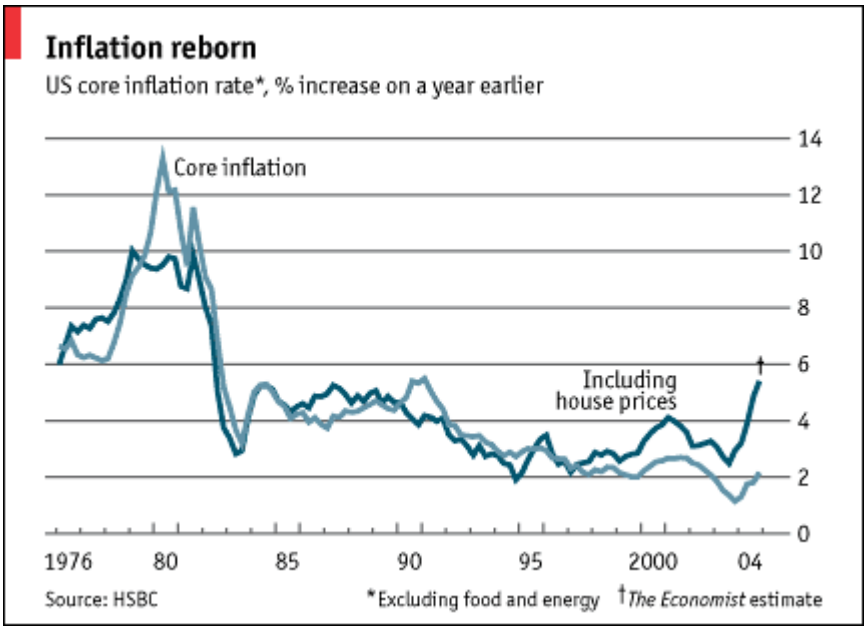
Feb 24th 2005
From The Economist print edition

Are central banks watching the wrong measure of inflation?

LAST week, for the first time, America's Federal Reserve published its forecast of inflation over the next two years. Many observers took this as a sign that the Fed had moved closer to setting an inflation target, as many other central banks have done. The minutes of the Fed's February meeting, published this week, confirmed that its policymakers have discussed the idea. Advocates of targeting argue that it would increase the transparency of America's monetary policy and maintain its credibility after Alan Greenspan retires as Fed chairman in 11 months' time. But at which measure of inflation should the Fed take aim?

It is widely agreed that central banks' prime goal should be price stability. Judged by existing consumer-price indices, central banks have indeed tamed inflation. But there are important things that such indices ignore—homes and shares, for instance. And the prices of these have been rising fast in many countries. Central banks should worry about those as well.

When inflation targets were first introduced (in New Zealand in 1989), the exact measure of inflation did not matter much. The main objective then was to reduce high rates of inflation by anchoring expectations. Today, however, consumer-price indices are arguably too narrow. Charles Goodhart, a former member of the Bank of England's Monetary Policy Committee, has long argued that central banks should instead track a broader price index which includes the prices of assets, such as houses and equities. America's core rate of consumer-price inflation (excluding the volatile prices of energy and food) rose by 2.3% in the year to January. But house prices rose by much more, 13%, in the year to the third quarter of 2004 (the latest official figures available). These are excluded from America's consumer-price index (CPI); instead the cost of home ownership is represented by rents. But this can be misleading: over the past year, rents have risen by just over 2%, a lot less than house prices.



Ian Morris, an economist at HSBC, has devised a broader index, which includes house prices, giving them a weight of 30%, the same now attributed to the notional "rent" paid by homeowners in the core CPI. In the year to the third quarter, inflation as measured by this broad index was 4.9%, more than twice the rise in the core CPI. Assuming that house-price inflation has continued at the same pace, *The Economist* calculates that broad inflation is now 5.5%, the highest since 1982 (see chart). Moreover, during the past three decades the gap between the two measures of inflation has never been so wide for so long.

If inflation in America is really higher than the official index suggests, then interest rates should also be higher. Similar measures would show inflation well above the standard figures in many other countries too. The main exceptions are Japan and Germany, where house prices have been falling.

A long economic pedigree

The idea that central banks should track asset prices is hardly new. In 1911 Irving Fisher, an American economist, argued in a book, "The Purchasing Power of Money", that policymakers should stabilise a broad price index which included shares, bonds and property as well as goods and services. Central banks already take account of asset prices by estimating their effect on wealth and hence on demand and future inflation, but the idea behind a broad price index goes much further, acknowledging that asset-price inflation can be harmful in its own right.

The most obvious way is through a giddying rise and subsequent crash of markets for shares or property. Big swings in asset prices can also lead to a misallocation of resources and so slower economic growth, just as high rates of general price inflation distort economies by blurring relative price signals. For instance, soaring property prices can encourage households to borrow too much and save too little, and can pull excessive resources into property at the expense of other forms of investment.

More fundamentally, if inflation is defined as "changes in the value of money", then the consumer-price index is flawed because it only measures the prices of current consumption of goods and services. A classic paper written in 1973 by two American economists, Armen Alchian and Benjamin Klein, argued that people care about changes in the prices not only of the goods and

services they consume today, but also of what they use tomorrow. Because assets are claims on future goods and services, their prices are proxies for the prices of future consumption. If I buy a house—ie, a claim on future housing services—and its price is higher than a year ago, then surely that should be included in inflation since it reduces the purchasing power of my money. Many consumer durables, such as cars, which also provide services over several years, are already included in the CPI.

If the prices of goods and services and those of assets move in step, then excluding the latter does not matter. But if the two types of inflation diverge, as now, a narrow price index could send central bankers astray. Granted, asset prices are hard to measure: a rise in house prices may partly reflect an increase in the average quality of homes; and economists disagree over what weight house prices should have in a broad index. Yet buying a home is an enormous expense, so it is absurd to use such a rough approximation as rent, as does America's CPI, or to exclude the costs of owner-occupier housing altogether, as does the European Union's harmonised index of consumer prices.

Given the elusiveness of a perfect price index, central banks should keep using conventional, narrow inflation targets, but be prepared to undershoot them temporarily if house or share prices soar. This means taking a longer view than hitherto: an inflation target looking only two years ahead is too short-term. And although the calculation would be tricky, central banks might usefully publish broad price indices, including asset prices, beside existing measures. They would then find it easier to explain why they must sometimes raise interest rates when conventional inflation is low.

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The marshes of southern Iraq

One-third of paradise

Feb 24th 2005 | WASHINGTON, DC
From The Economist print edition

Reuters

Can southern Iraq's marshes be restored? This, and other news from the annual meeting of the American Association for the Advancement of Science (AAAS)

ONE of the many tragedies of Saddam Hussein's rule was his ecological vandalism of the marshlands of Mesopotamia. The Iraqi marshlands once stretched across 20,000 square kilometres and were home to hundreds of thousands of marsh Arabs. For thousands of years they had been a lush and productive oasis, home to rare and diverse plants and animals. Some people claim they are the site of the garden of Eden. So the draining of the marshes between 1985 and 2000 was a catastrophe on many levels. When Saddam had finished, less than 10% of them remained.

The end of the war has brought much change. Water is now flowing again into many of the drained areas. But it may be too late to turn the clock back. At the AAAS meeting, held in Washington, DC, from February 17th to 21st, Curtis Richardson of Duke University in North Carolina said that only 30% of the original marshland had the potential for restoration.

Since the American invasion, there have been many uncontrolled releases of water by exuberant marsh dwellers who have blown up or removed dykes and floodgates. Azzam Alwash, director of the “Eden Again” project at the Iraq Foundation in Washington, DC, has calculated that 40% of the original marshes are now covered in water. In some areas, reed beds have sprouted like magic beanstalks, and birds and fish have started to return. It isn't magic, though. When water is added to a soil that is still rich with the seeds of the plants that once lived there, those seeds should sprout and grow. Nor, sadly, is there anything mystical about the fact that in other places where water has been added, the result has been nothing but a dead lake. There is, for example, a huge

area south of the last remnant of remaining natural marsh on the Iran-Iraq border, Hawizeh, which has been flooded for six months but where nothing grows.

The problem is that in many areas the drainage left so much salt on the ground that nothing can live in the soil. In other places the dried reed beds caught fire and burnt with such heat that the ground has been baked into a hard ceramic crust. Nothing may grow there again. And even in areas where there is life, the amount of salt in the soil means that what does grow back may bear little resemblance to what was there before.

What though the field be lost?

That, of course, raises the question of exactly what was once there. Luckily, images taken by Landsat, an American satellite programme, in the 1970s, give some idea of where different types of vegetation existed. More help comes from Majeed al-Hilli, a scientist working at the University of Baghdad. At about the same time as Landsat was snapping away, he was working on a PhD on the marshes. His was the first and only systematic study of their vegetation. It is hoped that his research will tell those working on the restoration of the marshes about the size and nature of the plants that were once there, as well as the chemistry of the water and soils.

Although much has been made of the flourishing of greenery in some areas, this could be a false dawn. Dr Richardson warns that there will be little or no long-term restoration unless the wetlands are designed to allow enough water to flush through and reduce the tendency of salt and poisonous heavy metals to build up.

At the moment, water is being allowed to come in, but nobody is in any hurry to let it out again. Yet the seasonal flushing of fresh water and sediment is crucial to the survival of the marshes. In the al-Sanaf marsh, for example, there is particular concern about selenium. If the marsh is not flushed with fresh water, this metal will accumulate and have toxic effects on animals at the top of the food chain.

In the Middle East, water is a precious commodity. The need for the marshes to be flushed, and the fact that not all of the former wetlands have equal potential for restoration, mean that what little water is available must be aimed at those places where it will do the most good. Dr Alwash's work on hydraulic models of the marshes will help.

The models, combined with detailed topographic information, allow him to predict how much water is needed to reflood an area to the depths necessary for proper marshland. There is no point in reflooding if the result is a few centimetres of stagnant water. That water might be better used elsewhere. Dr Alwash's work will allow various options for restoration to be assessed, and also permit the creation of wetlands designed to meet the sewage-treatment requirements of local villagers.

Unfortunately, the key to successful restoration of the marshes lies beyond the realms of scientific research. Although marsh restoration is symbolic to Iraqis, there are a number of reasons why even 30% may remain unattainable. One of the most visible is the threat to Iraqi water flow posed by the massive Ataturk Dam—built in Turkey in 1990. Its reservoir has the capacity to hold five times the annual flow of the Euphrates (around 31 billion cubic metres per year). Most of the water in the Euphrates and Tigris begins its journey as snow in Turkey. It is this melting snow that should feed the marshes every spring.

To make matters worse, the flow of water to Hawizeh, the last remaining marsh, is threatened by a new dyke being built by Iran, apparently for the purpose of selling water to Kuwait. This marsh is a refuge for the plants and animals that it is hoped will return to restored areas of marshland.

Even if enough water is theoretically available, there are other problems. While most marsh Arabs seem to want the marshes restored, it looks as though many no longer actually wish to live in them. Peter Reiss, director of a marsh-restoration programme funded by the United States' Agency for International Development, says that only 1,600 people actually now live on the floating grass platforms that were traditional before Saddam began the drainage. In these places life is currently very difficult. The only water people have to drink is saline and polluted. Diarrhoea is commonplace and, according to Mr Reiss, infant mortality exceeds 50%.

The way found prosperous once

This is not to say that life would be like this in areas that had been properly restored. But that may be irrelevant, for the drainage of the marshes has brought about a social and economic transformation that is unlikely to be reversed in a big way. Today, marsh Arabs mostly live on drained areas or on the margins of marshlands, and they have taken to growing wheat and raising livestock. The marsh Arabs are now mostly field Arabs. Some of Dr Reiss's work involves improving agricultural methods, planting date palms and paying vets to look after livestock. And as the Iraqi economy improves, and agriculture and industry develop, there will be demand for water. That will leave some difficult choices ahead.

Marsh Arabs were once an integral part of the Mesopotamian marshes. If the human component of this ecological system does not wish to return, then it will not be possible to restore the marshlands to what they once were—however much significance that restoration may have to everyone else. This still leaves the possibility of restoring the animals and plants, but it means it is necessary for Iraqis to decide exactly for whom the marshes are being restored, and to what.

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Climate change

Oceans apart

Feb 24th 2005 | WASHINGTON, DC
From The Economist print edition

More evidence that global warming is man-made

Get article background

SOME people do not believe global warming is happening; some believe it is happening, but that it is the result of natural variation; and some believe it is being caused by human activity. A paper presented to the AAAS by Tim Barnett, of the Scripps Institution of Oceanography in La Jolla, California, provides further evidence that the third camp is right.

Most published research on climate change looks at the atmosphere. That is partly because the records are good and partly because it is in the atmosphere that the human-induced changes that might be causing it are happening. One of these changes, which would promote global warming, is a rise in the level of so-called greenhouse gases (particularly carbon dioxide) which trap heat from the sun and thus warm the air. Another, which would oppose warming, is a rise in the quantity of sulphate-based aerosols, which encourage cloud formation and thus cool the air by reflecting sunlight back into space. Dr Barnett, however, thinks that the air is the wrong place to look. He would rather look in the sea. Water has a far higher capacity to retain heat than air, so most of any heat that was causing global warming would be expected to end up in the oceans.

And that was what he found. In a follow-up to a preliminary study published four years ago, he looked at ocean-temperature surveys made over the past 65 years. He confirmed that the sea has got warmer since the 1940s, and particularly since the 1960s. Furthermore, it has done so from the top down. At a depth of 700 metres, things are almost unchanged. But surface temperatures in all six of the ocean basins he examined (the north and south Atlantic, Indian and Pacific oceans) have increased by about half a degree Celsius.

So the Earth has, indeed, warmed up over the past few decades, as most climatologists already believed. But the actual pattern of temperature change in each of the six ocean basins is different (see chart), and that diversity allowed Dr Barnett to test the idea that people, rather than natural phenomena, are the reason for the warming. He took two widely respected models of the world's climate (which couple events in the atmosphere with events in the sea, and take account of both greenhouse gases and aerosols) and played with their variables in different ways. He tried mimicking the effects of the natural variability caused by feedback loops within the climate, and also the effects of small changes in the sun's output and the consequences of volcanic eruptions, both of which affect the climate. But the only changes that produced patterns of heating which matched reality were the man-made ones. And the match was good in all six basins. Which is confirmation, in Dr Barnett's eyes at least, that the guilty party in global warming is industrial man.

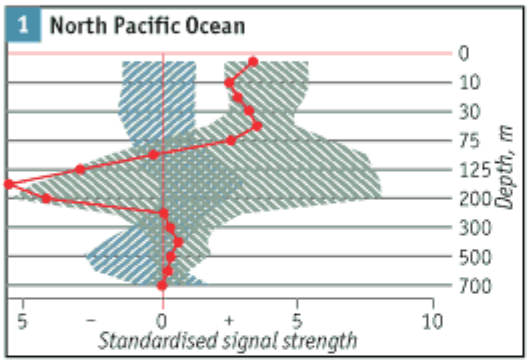
Variations on a theme

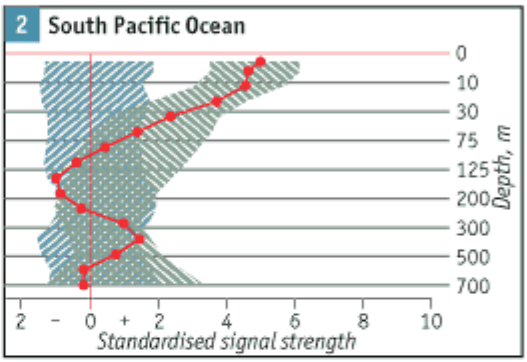
Sea-temperature changes since 1960

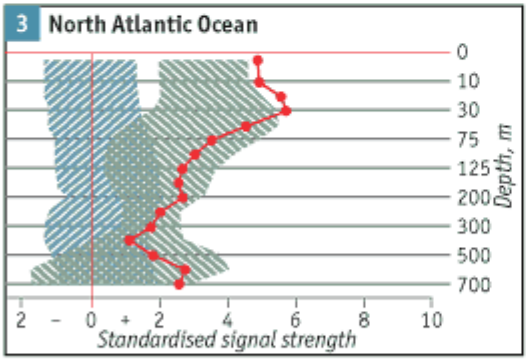
Observed statistical deviation from 1960 values, in standardised units

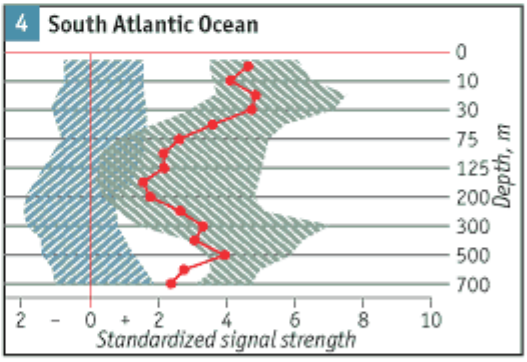
Range of deviations predicted for natural variation alone

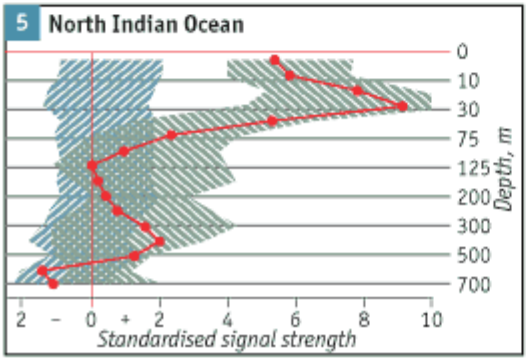
Range of deviations predicted for natural and human-induced variation combined

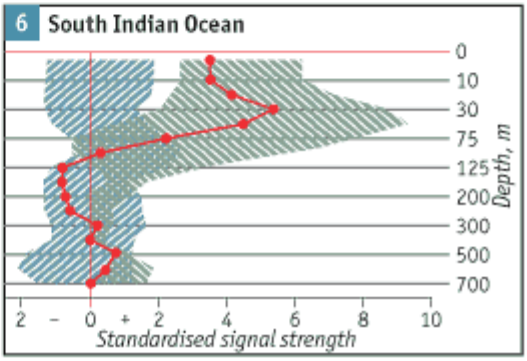












Source: Scripps Institute of Oceanography

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Animal behaviour

Are dogs people too?

Feb 24th 2005 | WASHINGTON, DC
From The Economist print edition

Animal personalities are as clear-cut and distinctive as human ones

SOMETIMES it takes science a while to prove the obvious. Any dog owner could tell you that dogs have personalities, and could describe that of their own pooch. And to be fair to the science of animal behaviour, that would also have been true of any researcher in the field 70 or 80 years ago. But the creed of behaviourism, which began to take over the subject in the 1930s, eschewed such sentimentality. In an attempt to bring rigour to the field, animals were thought of as machines (which, in a sense, they are). The analogy, however, was pushed too far, and became doctrinal rather than merely useful. The study of personality differences between individual animals dwindled.

Samuel Gosling, however, is one of a generation of behavioural scientists who not only recognise animal personality, but are reviving the study of it, as he explained to the AAAS meeting. Dr Gosling, who works at the University of Texas, in Austin, studies dogs and hyenas, as well as people. Both dogs and hyenas are social carnivores. And both, he has shown, have lots of personality.

One thing the behaviourists worried about was anthropomorphism—the tendency mistakenly to ascribe human emotions and motives to other species. What Dr Gosling and his colleagues have done to eliminate that risk is to show that, although individuals in each species have their own personalities, these fall inside what might be described as a “personality space” that is distinctive to a species.

Human personalities, for example, are sometimes measured in five dimensions: “openness to experience”, “conscientiousness”, “extraversion”, “agreeableness” and “natural reactions” (how calm or sensitive to stress someone is). Dr Gosling managed to establish analogous personality spaces for his two social carnivores.

First, he asked people who knew individual animals well to describe them with lots of different adjectives. Crucially, those people used different terms when describing the personality traits of their animals to those applied to people. Humans, for example, are rarely described as “slobbering”, an adjective that came up fairly often for dogs. But there were also some illuminating similarities. It was hardly surprising that some hyenas were described as “aggressive”, but “highly strung”, “calm” and even “imaginative” were also descriptions that the hyena workers at the University of California, Berkeley, gave to some of their charges.

Just as important, the different humans who knew a particular animal agreed about its personality to a degree similar to that found when several people describe a human friend they have in common. So animal personalities look both reliable, and reliably non-human.

The five main dimensions of human personality were discovered using a statistical technique called

factor analysis. This works out how likely it is that particular things such as behavioural traits co-occur. Applying this analysis to dogs yielded four principal dimensions to their personalities. Dr Gosling calls these “sociability”, “affection”, “emotional stability” and “competence” (a mixture of intelligence and obedience). Hyena personalities, like those of humans, had five principal dimensions—but these included “assertiveness”, “excitability” and “curiosity”.

Dogs, then, are not people after all—despite what some dog owners might believe—and neither are hyenas. But they are distinct personalities. Dr Gosling's method has helped to launch a new scientific discipline, comparative personality theory. It is hard to draw meaningful conclusions from a single example. But adding knowledge about dogs, hyenas and other species to what is already known about people should help to illuminate exactly what, biologically, personality is for, and also how it has evolved.

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Argentina's debt restructuring

Screeching to the precipice

Feb 24th 2005 | BUENOS AIRES
From The Economist print edition

The Argentine government talked tough and won. For now

WHEN Argentina started restructuring its $81 billion-plus-interest in defaulted debt last month, it was billed as the biggest game of chicken in financial history: the government vowed not to improve its offer, worth broadly 30 cents on the dollar, and bondholders promised never to accept it. Now it seems that despite their threats of lawsuits, asset seizures and collective rejection of the Argentine ultimatum, the creditors swerved practically before they got into the car.

Most analysts were predicting that at best 70% of bondholders would accept the offer, which closes on February 25th. As *The Economist* went to press, about half the outstanding debt had been exchanged, retail investors were queuing to hand over more and some big institutional investors planned to follow suit on the last day. Most now reckon that at least 80% of creditors will participate. That looks high enough to persuade the IMF to bless the deal and also to trigger “exit consent” clauses in the bonds that could make them virtually illiquid for those who choose not to take part.

The success of the government's negotiating strategy—which was not to negotiate at all but to offer a take-it-or-leave-it package instead—is a political triumph for Argentina's president, Néstor Kirchner. As his Peronist party heads into legislative elections in the autumn, he can claim that he faced down the foreigners and won. It should provide the country with short-term economic advantages as well.

Standard & Poor's, a rating agency, has said that after the restructuring it will rate Argentina a B-minus debtor, a status that Ecuador did not attain for five years after its default. Foreigners will probably not want to lend to the Argentine government directly for a while after taking a 70% loss—twice the average haircut in recent sovereign defaults—and the government will still be left with a public debt equal to 80% or more of GDP. But the country's new credit rating should increase access to capital for its best-behaved companies. Other immediate benefits include a smaller chance that lawsuits against the government will succeed and a better relationship with the IMF. The Fund might allow Argentina more time to repay the $14 billion it owes the IMF and soften the conditions that govern it.

Most important, greater confidence in Argentina (and its soaring equity markets) may bring home some of the $150 billion or so its citizens hold abroad. The return of flight capital is a practical necessity for the country to keep growing. Its galloping GDP growth, 8.8% in both 2003 and 2004, was largely due to high soyabean prices and the use of capacity left idle by the economic collapse in 2001 and 2002. Commodity prices have already declined from their peaks and capacity constraints are likely to be felt again this year, so fresh capital will be needed. Mr Kirchner has hardly wooed external direct investors: his government is yet to lift the freeze imposed during the crisis on rates charged by most foreign-owned utility firms. This has exacerbated worries that contracts in Argentina are not worth the paper they are printed on.

Finding nukes

Muon-assured defence

Feb 24th 2005 | WASHINGTON, DC
From The Economist print edition

Using cosmic rays to spot nuclear weapons

Get article background

A CERTAIN sort of madness once seemed enough to defend the United States from nuclear attack. “MAD”—Mutually Assured Destruction—operated on the premise that the best defence is a good offence. But the American government worries that MAD-style deterrence will no longer work. Terrorists, for example, might not care about the threat of destruction. And to make matters worse, any nuclear weapons used by terrorists or rogue states may not arrive by ballistic missile. Instead, they are likely to come in a cargo container—either by ship or on the back of a lorry driven across one of the country's long land borders. So the best defence might rely on intercepting a nuclear weapon at the border, rather than in space.

But to intercept something, one must first find it. A nuclear weapon can be a tiny thing, and searching all incoming freight on the off chance of finding one is out of the question. Christopher Morris and Rick Chartrand, of America's Los Alamos National Laboratory in New Mexico, think they have found a way round the problem. As they explained to the AAAS, it would enable a lorry to be screened for the presence of fissile material (the uranium or plutonium that provides an atomic bomb's explosive power) in about a minute. And it is within the laboratory's traditional remit of doing clever things with radioactivity, for it relies on naturally occurring elementary particles called muons.

A muon is similar to an electron, but heavier and unstable. Muons are created in the atmosphere by cosmic rays (high-energy particles from outer space) colliding with air molecules. They arrive at the Earth's surface at a rate of one per square centimetre per minute. Crucially for Dr Morris's and Dr Chartrand's idea, they are good at penetrating metallic objects such as lorries, and yet also tend to be deflected from their paths by heavy atomic nuclei such as those of uranium and plutonium.

Fast-moving muons wreak havoc on air molecules as they pass by—stripping away electrons to create positively charged ions. That makes their passage easy to detect using banks of so-called drift tubes, which pick up the electrical signal generated by the ions. Dr Morris and Dr Chartrand's idea is to build boxes big enough for lorries to be driven into. Each box would have two layers of drift tubes above the lorry, and two below. This arrangement would allow muons to be tracked as they went into the lorry and as they came out. Any deviation from a straight line would mean that a muon had run into one or more atomic nuclei on its way through. By tracking enough muons and applying enough computing power, the two researchers think that they would be able to spot large concentrations of heavy nuclei—in other words, nuclear explosives.

So far, they have the computing power, but not the boxes. Simulations, though, suggest that the idea would work. A sphere of uranium weighing 20kg (about what is needed to make a bomb) shows up clearly. And even if the material were broken down into smaller batches alarm bells

would go off in the detection software—although in this case it would not be able to locate the uranium precisely.

The next step is to build a real detector and then, if that works, to convince the authorities to support widespread deployment. A system that scanned every lorry coming into the United States would, the researchers estimate, cost about $1 billion. That is a lot of money in most contexts, but not all that much in the context of nuclear defence. The existing missile-defence programme has already cost over $130 billion, and is scheduled to spend at least another $50 billion in the next five years. And unlike missile interceptors, which on February 13th spectacularly failed their second test in two months, detectors at America's borders should actually work. Madness, it seems, may give way to science.

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The Hubble space telescope

Heavenly light

Feb 24th 2005 | WASHINGTON, DC
From The Economist print edition

People are too attached to Hubble's pictures to let the space telescope go

NASA

Starry, starry night

BEAUTIFUL photographs of the universe have made the *Hubble* space telescope one of the best known and admired scientific instruments. At the AAAS meeting, however, Elizabeth Kessler, an historian at the University of Chicago, argued that *Hubble*'s images owe as much to artistic interpretation as they do to scientific fact. The popular images are not what human eyes would actually see. A team at the Hubble Heritage Project in Baltimore translates the raw data into visually and emotionally appealing scenes.

This, says Ms Kessler, involves making subjective choices about contrast, colour and composition. It also involves the selective removal of bright, star-like spots that are an accident of the way the telescope works. The overall images that result, says Ms Kessler, "resemble 19th-century romantic landscape paintings, especially those of the American west". Ms Kessler says that the iconic Eagle Nebula (shown) has had its contrast adjusted to add information, has had its data fiddled with to give greater depth perception, and been translated from monochrome into colour.

Hubble's true success is in the scientific discoveries it has made. It provided the first convincing evidence for the existence of a black hole, made observations supporting the theory that the universe's expansion is accelerating, and confirmed the existence of dark matter. But dramatic improvements in technology since *Hubble*'s launch mean that the telescope has a lot more competition from ground-based instruments these days.

Nevertheless, *Hubble*'s images have been a successful public-relations exercise for the telescope, and this may explain the strong reaction to news that NASA, America's space agency, will not send another shuttle mission to extend its life. Steven Dick, the chief historian at NASA, argues that neither the new "vision" for space exploration nor budget considerations were deciding factors. Although NASA announced its decision only two days after President Bush outlined his new space-exploration vision last year, Dr Dick says the budget process merely dictated the timing.

What certainly is important are the recommendations of the independent Columbia Accident Investigation Board (CAIB). The space agency was told to provide future shuttle missions with the ability to inspect and repair damage. This appears to rule out travel to anywhere except the International Space Station. More importantly, the CAIB report warned that NASA had failed to learn the lessons of the previous *Challenger* accident.

Sean O'Keefe, NASA's boss, promised things would be different. And this is why it is difficult to see

anyone reversing the decision any time soon. It is not merely about the risk to individual astronauts but rather the institutional risk to the agency. If NASA made an exception for *Hubble* and ignored the recommendations of a second independent panel, a third fatal accident might finish off the agency.

While the fat lady isn't singing yet for *Hubble*, she is certainly practising her scales. No matter how upset people are about the telescope's demise, it is hard to see anyone taking responsibility for reversing the decision until the shuttle has demonstrated that it can fly safely at all.

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Caravaggio

Man on the run

Feb 24th 2005
From The Economist print edition

National Gallery

The 17th-century Italian painter was the first modern artist, a precursor both of Francis Bacon and Martin Scorsese

HE PORTRAYED saints crucified upside down, pierced with arrows, rising from the dead. He left all his work unsigned except one: a beheading of John the Baptist in which he wrote his name in the blood spurting from the saint's neck (not the painting of Salome with the head shown above). Exiled from Rome for murder, famed as both genius and sociopath, he was protected by a coterie of corrupt cardinals and the Knights of Malta. Leonardo da Vinci may have inspired one of Dan Brown's bestselling thrillers but it is the graphic work of another old master, Caravaggio, that provide his books with their grisliest scenes, as a new exhibition at London's National Gallery clearly shows. “Caravaggio: The Final Years” is the first to concentrate on the last four years of the artist's life, 1606-10, when he had fled Rome after accidentally killing a man.

His artistic reputation had preceded him, and he was welcomed first in Naples, and then Malta, where he was invited to join the knighthood for his artistic virtue before being imprisoned for brawling. He escaped and fled to Sicily, where he painted his way from Syracuse to Messina and thence to Palermo, until he returned to Naples. There he was attacked by his old enemies and his face badly disfigured.

While recovering in Naples, Caravaggio painted some of his most dramatic works. In July 1610 he boarded a boat north, perhaps in the hope of finally returning to Rome, but was taken for a criminal in Porto Ercole and mistakenly arrested. He died there, probably of malaria. He was 38

and at the height of his fame.

“What is special about the work of his later years”, says Dawson Carr, co-curator of the show with Nicola Spinosa of the Museo di Capodimonte in Naples, “is that we can see his evolution as a painter through what is happening in his life.” Caravaggio has been described as the first modern artist, reflecting himself in his work in a manner that was unprecedented for the time. This can be seen most strongly in these later works in which Caravaggio identifies so clearly with the darker fears and desires of the classic bible stories.

The first two paintings in the show set the stage: the 1601 “Supper at Emmaus” from his Roman period and another depiction of the same scene completed five years later, the first of his paintings on the run. Where the first is expansive, with figures pointing out of the picture plane and with food arranged on the table in the manner of a still-life, the second is more restrained and internal, concentrating on the mystery surrounding Christ, rather than on the dramatic moment of recognition. More personal and half-subsumed by a dark void, the later painting looks like the work of an entirely different artist.

Once in Naples, Caravaggio fitted in like a native, embracing the metropolis that was three times the size of Rome, riven by extremes of wealth and poverty, light and dark, *palazzi* and shantytowns. Its idle rich gave him lucrative commissions, while the mob provided constant stimulation and a plentiful supply of models.

Caravaggio's art responded to the city's brutal beauty with a new harshness. Weatherbeaten southerners can be seen in the squalid crowd of the “Crucifixion of Saint Andrew”, while in the “Flagellation” the exquisite vulnerability of the illuminated body of Christ contrasts with those of his shadowy tormentors.

His ability to make the supernatural natural in his art emanated from counter-Reformation doctrines about making religious mystery tangible. But his work was recognised as revolutionary even in his own day. His supernatural bursts of light as a tool of revelation not only inspired generations of later painters, but in the 20th century have an indelible mark on cinema, from Italian neo-realism to today.

Martin Scorsese cites Caravaggio as an essential influence, both because of his lighting and because he painted religious subjects based on people he knew from the streets. “He had prostitutes playing saints,” he said recently. “There's something in Caravaggio that shows a real street knowledge of the sinner; his sacred paintings are profane.”

The show contains only 16 works, yet each one stands out from the wall and absorbs the viewer, providing new insight into both the life and art of the baroque master. Each of the works has been the product of furious loan negotiations over the past six months. All the same, some key late works remain conspicuous by their absence: the massive “Beheading of John the Baptist” never leaves the Maltese capital, while a striking “Nativity” from Palermo disappeared in 1969 when it was stolen by thieves who gave it to the mafia.

Nonetheless, the National Gallery managed to persuade the usually intractable Galleria Borghese in Rome to part with two trademark works in return for lending them its Raphaels for a future show. The museum in Messina lent both of its Caravaggios—the most valuable works in its collection—in return for an Antonello da Messina next year. The Metropolitan Museum of Art in New York lent “The Denial of Peter”, despite pulling out of the show last year, and other works have come from Cleveland, Madrid, Milan and Nancy.

One thing is certain: Caravaggio has become big business, a 17th-century Van Gogh whose mystique draws in visitors who are not normally interested in art. In Naples last November the

show was so popular that a man who was supposed to be under house arrest was caught waiting in the queue. The curators graciously sent him a catalogue.

“Caravaggio: The Final Years” is at the National Gallery, London, until May 22nd.

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The European Union

An optimist's view

Feb 24th 2005
From The Economist print edition

Why Europe Will Run the 21st Century
By Mark Leonard

Fourth Estate; 170 pages; £8.99

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CONVENTIONAL wisdom has it that Europe is a washed-up, ageing, economically stagnant continent, destined inexorably to lose ground not only to a dynamic United States but also to China and even India. Subscribers to this thinking tend also to disparage the European Union as a main source of the problem: too much red tape, inept economic management, excessive taxes, lowest-common-denominator foreign-policy making. Yet there is another view, epitomised not only in this book by a British Europhile, Mark Leonard, but in other recent books by two American commentators, “The United States of Europe” by T.R. Reid and “The European Dream” by Jeremy Rifkin. Mr Leonard argues that an ever-expanding EU has a rosy future, and that its model of a “network” that is more than a gaggle of nation-states but less than a federal superstate is in many ways more alluring than America's.

As so often, the truth lies somewhere between these pessimistic and optimistic views. Mr Leonard is right, for example, to point to the stunning success of the EU in democratising and liberalising its near neighbours, by the simple expedient of holding out the carrot of membership. Contrast the progress made over the past three decades by southern and central Europe, and now by much of eastern Europe and Turkey, with the continuing troubles of most of America's neighbours in Latin America and the Caribbean. Even the Balkans, where Europe (and America) stumbled badly in the 1990s, is looking more hopeful as countries there prepare for further EU expansion.

Nor is the economic performance of the EU anything like as bad as the gloomsters claim. It is the world's biggest market, biggest exporter and biggest foreign investor. It is home to many of the world's largest and most successful companies. Some of its member countries, such as Finland, Sweden or Ireland, rank at the top of the league of the world's most competitive economies. Its new central European members are mostly fast-growing.

Over the past decade, indeed, the increase in output per hour worked has been larger in the EU than in the United States. The gap in overall economic growth reflects America's faster population growth and longer working hours, not a more productive workforce. If Europeans are choosing more leisure time, more public spending and smaller families than Americans, what is wrong with that? Moreover, the American economy could be heading for trouble because of its low saving and its unsustainable budget and trade deficits.

Mr Leonard has some good points on his side. Yet overall his arguments are too optimistic. The EU's foreign-policy clout is weakened because its big member states still tend to go their own way, most spectacularly over Iraq. Its military muscle remains feeble. The core countries of France, Germany and Italy all suffer from high unemployment and slow growth, caused in large part by overly regulated labour markets and high taxes. The demographic outlook for all of Europe

remains grim. America's economic problems seem small in comparison; like all things unsustainable, its deficits will be corrected in time (a misprint attributes this point to an economist named Herastein, presumably intended to be Herb Stein).

Perhaps the biggest problem for the EU is that the European project, now approaching its 50th anniversary, still suffers from such a marked lack of enthusiasm among ordinary people. To most voters, Brussels, with its preposterous farm subsidies, overpaid bureaucrats and incomprehensible institutions, remains remote and apparently unaccountable. Britain is by no means the only haven of Eurosceptics: many are to be found in France, in Scandinavia and even in the new member countries from central Europe.

A big test will be the EU's new constitutional treaty, the ratification of which Mr Leonard takes largely for granted. This is too complacent. Although the Spaniards have just voted yes, the turnout was low; all the signs are that one of the nine countries still due to hold referendums on the constitution will reject it—with the most likely naysayer being Britain. Should that happen, the EU will lapse into one of its periodic crises, when it can spend years preoccupied with internal squabbles. The rosy scenario painted by Mr Leonard could yet materialise; but it will take far more strenuous efforts by European leaders than they have made thus far to persuade their voters of the EU's benefits.

Why Europe Will Run the 21st Century.
By Mark Leonard.
Fourth Estate; 170 pages; £8.99

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Disney and Hollywood

Back-stabbing in the dark

Feb 24th 2005
From The Economist print edition

LITERATURE seldom portrays the lives of businessmen at the office, and when it does they are usually typecast either as crooks or bores. That is a pity, since some workplaces are weird enough to merit closer interest from fiction. The Walt Disney Company, for example, an entertainment giant, is famed within its industry for having one of the most political, dark and back-stabbing cultures of any firm in America. The contrast between its wholesome fairytales for children and the personal hatreds and betrayals that play out at its headquarters in Burbank, Los Angeles, is striking.

For the past year or so, Disney has been in a state of open warfare. Roy Disney, nephew of Walt and a large shareholder, is fighting to oust its longstanding chief executive, Michael Eisner, and to prevent the rise of his ally, Bob Iger.

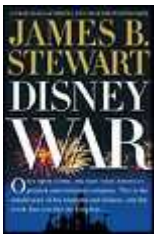
Mr Disney's family name lends him moral stature, and he styles the power struggle as a fight of good against evil. Mr Eisner stands for ruthless commercialisation of Disney's innocent cartoon characters, contends Mr Disney, who privately nicknames him the Wicked Witch after the character in “The Wizard of Oz”.

In “DisneyWar”, James Stewart, an investigative journalist, lays bare the inner workings of the firm in detail. His principal subject, Mr Eisner, seems to accept that his actions are sometimes villainous, referring often to his “dark side” as an explanation for the vicious way in which he treats colleagues who threaten his position.

But Mr Stewart's history is farce as well as morality tale. Executives behave like schoolgirls; Jamie Tarses, a television manager, orders that none of the people who report to her are to talk to Lloyd Braun, a rival. One of many hilarious moments in the book comes when a consultant hired to help top Disney executives with teamwork declares after spending time with them that “the results of my research indicate that you guys are not a good team. You're not a team at all. You're not even a group.”

At the outset of his career at Disney, Mr Eisner wrote a memo explaining that “We have no obligation to make art. We have no obligation to make history. We have no obligation to make a statement.” That view of Hollywood's priorities is shared by Edward Jay Epstein, whose book “The Big Picture” describes the way in which studios are catering more and more for young audiences, meaning more car chases, more special effects, less dialogue and, in the end, worse movies.

DisneyWar
By James B. Stewart



Simon & Schuster; 572 pages; $29.95. To be published in Britain by Simon & Schuster next month

Buy it at
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The Big Picture: The New Logic of Money and Power in Hollywood
By Edward Jay Epstein

Random House; 396 pages; $25.95

Buy it at
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Amazon.co.uk

“The Big Picture” describes how Hollywood works, and even makes sense of some of Mr Eisner's behaviour, such as his payment of $140m in severance to Michael Ovitz, former boss of CAA, a talent agency, for 15 months' work. Disney shareholders have brought a lawsuit against the firm's directors for not firing Mr Ovitz for “cause”—which would have meant no payment. Mr Epstein rightly describes Hollywood as a close-knit community with a stronger hold on its employees' loyalty than any single company within it. Though Mr Eisner was willing to betray Mr Ovitz by firing him in a humiliating way, going on to prove incompetence would have breached the community's rules. As for Mr Eisner's indulging of the dark side of his personality, what else could be the point of succeeding in Tinseltown?

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Mary Wollstonecraft

An early free spirit

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From The Economist print edition

BY THE time Mary Wollstonecraft died in childbirth in 1797 (the child in question was to write “Frankenstein” and marry the poet Shelley), the counter-revolution against the ideas that had nourished her was in full swing. The American and French revolutions had opened minds to the possibility of life without kings and priests, without slaves and slave-masters. She herself had imagined life, not exactly without men, but without marriage, an institution that defined the upbringing of girls and limited the legal rights of women so completely that an attack on it extended everywhere: from women's education to property law, from the nature of women to the nature of humanity itself.

Mary Wollstonecraft: A New Genus
By Lyndall Gordon

Little, Brown; 576 pages; £25. To be published in America as 'Vindication: A Life of Mary Wollstonecraft' by HarperCollins in May

Buy it at
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But by the mid-1790s, the Terror in France and hostilities against America had sent radical thought into retreat, even, or especially, feminism. Wollstonecraft's “Vindication of the Rights of Woman” (1792) had been a bestseller, but many were scandalised by her argument that girls should be educated to think for themselves, not to catch husbands. So closely was the idea of female independence linked with licentious conduct, that nothing less than cast-iron respectability in the author would have made it palatable.

Wollstonecraft did not qualify. She believed not only in independent thought but in the “sacredness” of the heart. False delicacy was the enemy, so that when she fell in love she did so openly: first with Henry Fuseli, a married artist with whom she suggested a *ménage à trois*; then with Gilbert Imlay, an American whose illegitimate child she bore; and lastly with William Godwin, a political philosopher. The consequence was that certain otherwise intelligent women refused even to read her work.

Lyndall Gordon's biography is the first to match its sympathy to the scale of the mountain of prejudice she had set herself to shift. Claire Tomalin's justly admired portrait, published in 1974, treated her ideas with sympathetic seriousness, but reserved a certain crisp, Jane Austenian irony for the lady herself: self-dramatising, solemn and domineering as she sometimes was. Ms Gordon is less interested in placing her in this way, more in connecting her with a modern understanding of feminism. Wollstonecraft was groping towards the future when she described herself as belonging to “a new genus”. Now, generations of feminism down the line, Ms Gordon extends an answering hand.

New research and perspectives have, in any case, hugely added to the picture. Ms Gordon opens up the whole episode with Imlay in France, where Wollstonecraft had gone in 1792 to observe and write about the revolution. Imlay comes across as more complex than usual, less of a pure scoundrel, and Ms Gordon brings out the importance for Wollstonecraft of his origins in the New World—that place of utopian experiment. Painstakingly, she reconstructs Imlay's commercial speculations. Politicking and anthropologising round Scandinavia and Germany on Imlay's behalf, and with his baby in tow, Wollstonecraft emerges not so much the spurned mistress of earlier

accounts, as the courageous survivor.

For someone who valued independence, Wollstonecraft was always inconveniently in need of love, and increasingly of settled love. The most moving part of the book comes at the end, not only because of her terrible death (the result of grubby and ignorant doctoring) but because it cut short the promise of a longed-for solution. Her marriage to Godwin, a fellow free-spirit, was so arranged that though they slept together and met every day, they lived a few doors apart: “I wish you, for my soul, to be rivetted in my heart,” she said, but not “at my elbow”. The hourly flow of notes between them, as swift as e-mails, says Ms Gordon, allows us almost to hear them talking: playful, loving, sometimes voluptuous, sometimes quarrelsome, but always intelligent, articulate and strikingly modern. It was their triumph against the tyranny of the institution they both hated.

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Politics and education

Classroom switch

Feb 24th 2005
From The Economist print edition

POLITICS is about a bunch of articulate, motivated people trying to engage the interest of another, mostly apathetic lot. Teaching teenagers in a big inner-city school is much the same sort of thing, but more intense.

That is the message that comes across from Peter Hyman's untidy but fascinating book. He used to be a wordsmith in Tony Blair's office, writing uplifting speeches for Britain's prime minister about, among other things, how the government was improving education. Tiring of that, he started work at a tough school in Islington. A few years back, it was notoriously rough: the Blair family, when they lived nearby, sent their children halfway across London (to an elite Roman Catholic school) in order to avoid it.

1 Out of 10: From Downing Street Vision to Classroom Reality
By Peter Hyman

Vintage; 392 pages; £7.99

Buy it at
Amazon.com
Amazon.co.uk

The book has two strands. The shorter one is what it was like working in Downing Street. There are amusing, sometimes surprising, anecdotes about the pressured, micro-managed, obsessional world of politics. Mr Hyman claims credit for the invention of the “grid”—a media-management device designed to ensure that the government dominated the news agenda, with big stories timed and launched with guile and precision. His touch of smugness is balanced by a touch of idealism: with his slick turn of phrase he could have earned much more as an advertising copywriter.

His account of Islington Green school is more consistently interesting. The overwhelming impression for readers unfamiliar with the robust challenges of British secondary education will be amazement at the indiscipline and near-chaos prevalent at even a well-led and fast-improving school. There is one particularly depressing episode where the head teacher, whom Mr Hyman regards with almost as much adoration as he gave Mr Blair, suggests a radical innovation: pupils should not be allowed to move up the school until they can read and write confidently.

That should be the job of primary schools, which teach children aged five until they are 11. Shamefully, more than a fifth of their pupils move on to secondary schools having learnt next to nothing, usually with dismal results for them, and disruptive ones for other children. But the teachers would have none of the head's idea, arguing that all children have the right to study a broad curriculum. The result, notes Mr Hyman ruefully, is that children are starting to learn (or, more accurately, to attend lessons in) Spanish, when they cannot even read or write English.

The interplay between Mr Hyman's reflections on government and his experience in real life is sometimes clumsy, but never dull. The reader is left saddened by the fact that, despite an excellent head teacher and a generous government, the streetwise children of education-averse parents can be so hard to deal with.

1 Out of 10: From Downing Street Vision to Classroom Reality.
By Peter Hyman.
Vintage; 392 pages; £7.99

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Sturgeon and caviar

Victim of fashion and greed

Feb 24th 2005
From The Economist print edition

PABLO PICASSO allegedly exchanged his prints for sevruga, Ian Fleming would buy only osetra, Madonna prefers beluga. As the epitome of conspicuous consumption, caviar hardly needs celebrity endorsers: its iconic power exists “precisely because of the exorbitant costs and their irrelevance to any concept of necessity”. But the allure of caviar obscures a murkier truth. This is uncovered by Richard Adams Carey, along with some of the mysteries of the sturgeon itself—a creature that moves like a dreadnought and whose roe are traded in the dark undercurrents of the criminal world.

The Philosopher Fish: Sturgeon, Caviar, and the Geography of Desire
By Richard Adams Carey

Counterpoint Press; 333 pages; $26

Buy it at
Amazon.com
Amazon.co.uk

Sturgeon, with its 24 separate species, was once the dominant large fish in every major river system of the northern hemisphere. Unchanged in form for 100m years, sturgeon cruise both fresh and salt water, hoovering up prey with a flexible cartilaginous jaw. As recently as 1997 a female beluga, captured from the Volga river, measured 21 feet 4 inches (6.5 metres), and weighed in at over 4,000lb (1,815 kilos). It was estimated to be 130 years old and “were it not for the gaping mouth and frond like barbells could have passed for an ICBM hijacked from an old Soviet missile bunker.”

How the eggs of this ancient fish came from being a minor trade item among the Mongols to selling for over $100 an ounce is a story of fashion, trade and a greed that has repeatedly “outrun stewardship”. Although at the time a near staple in Russia, caviar's export to the West had a shaky start: a young Louis XV reputedly spat out his first gift of caviar from Peter the Great. The eggs came into their own with the Russian aristocrats who filled the salons of Europe after the defeat of Napoleon.

In the United States, immigrant fishermen began to sell caviar from American sturgeon in the mid-19th century. Soon its price rocketed, and the numbers of sturgeon crashed. The “black gold” was exported back to Europe from America in the 1920s, and the Soviet Union began a decidedly capitalistic trade. Today, caviar from the Caspian is controlled by organised crime in a trade in which poaching was worth between $2 billion and $4 billion a year in the late 1990s—and which has resulted in rather few sturgeon being left alive.

The overfishing of sturgeon is most marked by its repeatability: first in Europe, then North America, now in Russia. Mr Carey introduces a range of characters fighting this exploitation, including customs agents, scientists, fishermen and CITES, the Convention on International Trade in Endangered Species that attempts to protect over 30,000 species of animals and plants. The author's passion for the sturgeon is evident, but for a book that champions the power and beauty of the fish, it is a shame that not one illustration is available to convey its splendour.

The Philosopher Fish: Sturgeon, Caviar, and the Geography of Desire.
By Richard Adams Carey.
Counterpoint Press; 333 pages; $26

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Obituary

Hunter S. Thompson

Feb 24th 2005
From The Economist print edition

Paul Harris-Getty Images

Hunter S. Thompson, doctor of gonzo journalism, died on February 20th, aged 67

THERE were always way too many guns around at Hunter S. Thompson's farm in Woody Creek: .44 Magnums, 12-gauge shotguns, black snubnosed Colt Pythons with bevelled cylinders, .22 calibre mounted machineguns. He also kept explosives, to blow the legs off pool tables or to pack in a barrel for target practice. His quiet bourgeois neighbours near Aspen, Colorado, complained that he rocked the foundations of their houses.

Explosions were his speciality. Indeed, writing and shooting were much the same. His very first newspaper story, written when he was ten for a neighbourhood newsletter in Louisville, Kentucky, was headlined “WAR!” (“The Voits declared war on Hunter's gang on Oct. 1, 1947. At 3.00 Hunter's gang attacked the Voits”). Later, as a working journalist, he fired off reckless fusillades of words that were meant to shock and entertain and wreak collateral damage.

He had always been a problem, kicked early out of high school (drinking, vandalism) and rapidly out of the air force, but his casual smashing of the rules of American journalism happened more or less by accident. Assigned to cover the Kentucky Derby in 1970, his mind was too blown with drugs, as usual, to write the story. One by one, with his trembling hands, he ripped the pages of whiskey-fuelled ramblings out of his notebook and sent them to the printer. The piece that resulted, “The Kentucky Derby is Decadent and Depraved”, was a runaway success, though he had neither described the race nor mentioned the winner. And he was astonished: it was like “falling down an elevator shaft and landing in a pool of mermaids.”

A friend called his style “totally gonzo”. The name stuck, though, as he confessed, nobody knew what the hell it meant. For the literary, he could explain that it followed William Faulkner's dictum that “the best fiction is more true than any kind of journalism.” Mr Thompson stalked, rifle in hand, cigarette (in holder) dangling, on the wild borderlands between fact and fiction, leaving readers to decide what was true and what was not.

Editors tried to control him, but failed. Journalistic objectivity was a nonsense to him; he threw it away, and turned his gaze on himself. He and his excursions into depravity became the central and only theme of every story he wrote. Sent to Puerto Rico for the *New York Herald Tribune*, in 1959, he shot rats at the San Juan city dump until he was arrested. Assigned in 1971 to write a 300-word caption on the Mint 400 motor-cycle race for *Sports Illustrated*, he wrote the 50,000 words of mayhem that became “Fear and Loathing in Las Vegas”. It began: “We were somewhere around Barstow on the edge of the desert when the drugs began to take hold.” Posted to Zaire in 1974 to cover the fight between George Foreman and Muhammad Ali, he never watched the boxing. Instead he floated naked in the hotel pool, into which he had thrown a pound and a half of marijuana, and let the green slick gather round him.

“Fear and Loathing” made him famous: so famous that the Republicans came courting him, although he was a Democrat. It was not just the guns, but the fact that he wore a twisted sort of patriotism on his sleeve. That journey through the Californian desert to find fame and fortune, stocked up with “two bags of grass, seventy-five pellets of mescaline, five sheets of high-powered blotter acid, a salt shaker half-full of cocaine, and a whole galaxy of multi-coloured uppers”, was also, Mr Thompson claimed, “a classic confirmation of everything right and true and decent in the national character.” (“Jesus! Did I *say* that?”)

Nixon's men wondered if this madman could be their bridge to the alienated, war-hating young. But they were playing with fire. Mr Thompson thought Nixon a liar and a bastard. He covered the 1972 election in typically take-no-prisoners style, producing what one campaign aide called “the least accurate and most factual” book about it; and when he toyed with politics it was on the Freak Power ticket, running for sheriff of Pitkin County, Colorado, where he could blow things away in the woods.

At Hemingway's grave

He did not give “a flying fuck” what he smoked, or ingested, or did, but there was a thoughtful side. Early in his career, in an obituary of a friend, he wrote of “the dead-end loneliness of a man who makes his own rules.” He was often melancholy, and wild conviviality and celebrity made no difference to that. The epigram to “Fear and Loathing” quoted Dr Johnson: “He who makes a beast of himself gets rid of the pain of being a man.” It was not thought surprising that his death was a suicide.

In 1964 he had made a long journey to Ketchum, Idaho, to the grave of Ernest Hemingway, one of his models and heroes. He wanted to understand why Hemingway had killed himself in his cabin in the woods, and concluded that he had lost his sense of control in a changing world:

> It is not just a writer's crisis, but they are the most obvious victims because the function of art is supposedly to bring order out of chaos, a tall order even when the chaos is static, and a superhuman task when chaos is multiplying...So finally, and for what he must have thought the best of reasons, he ended it with a shotgun.

Overview

Feb 24th 2005
From The Economist print edition

Reports, which were later denied, that South Korea planned to reduce the amount of dollar-denominated assets in its reserve portfolio caused turmoil in **currency markets**. The **euro** rose against the greenback to nearly $1.33, its highest level in six weeks, before weakening slightly.

Oil rose to $51 a barrel, the highest level since October. **Stockmarkets** stumbled, with the Dow Jones Industrial Average falling by 1.6%, before regaining some of the loss.

Worries about **American inflation** were stoked by January's higher-than-expected core producer prices, which exclude the volatile effects of food and energy. But these jitters were partly calmed when core consumer prices registered a modest rise of 0.2% in January and 2.3% in the year to January, only slightly higher than the 2.2% increase in the year to December. The **yield** on America's 10-year government bonds, which had risen as high as 4.29%, fell to 4.27%.

Germany's IFO business-climate index fell unexpectedly in February, mostly because of flagging sentiment among manufacturers and retailers. Business confidence in **Italy** fell to its lowest level in 14 months.

In **Sweden**, consumer prices were unchanged in the year to January. Over the same period they rose by 2.0% in **Canada**, compared with a rise of 1.2% in the previous 12 months.

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Output, demand and jobs

Feb 24th 2005
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2004	2005	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		Unemployment % rate year ago
Australia	+ 3.0	Q3	+ 1.2	+ 3.4	+ 3.1	+ 4.2	Q3	+ 2.2	Q4	5.1	Jan	5.7
Austria	+ 2.7	Q3	+ 3.2	+ 1.7	+ 2.1	+ 8.5	Nov	+ 7.0	Nov	4.5	Jan	4.5
Belgium	+ 2.6	Q4	nil	+ 2.6	+ 2.1	+ 0.3	Dec	+ 4.5	Nov	12.7	Jan†	12.9
Britain	+ 2.8	Q4	+ 3.0	+ 3.0	+ 2.4	+ 0.3	Dec	+ 3.9	Jan	4.7	Dec††	4.9
Canada	+ 3.3	Q3	+ 3.2	+ 2.7	+ 3.0	+ 3.8	Nov	+ 4.8	Nov	7.0	Jan	7.3
Denmark	+ 1.8	Q3	+ 0.5	+ 2.0	+ 2.0	+ 4.1	Dec	+ 9.8	Dec	6.2	Dec	6.7
France	+ 2.1	Q4	+ 2.8	+ 2.1	+ 1.9	+ 2.0	Dec	+ 2.8	Dec	9.9	Dec	9.9
Germany	+ 1.5	Q4	– 0.9	+ 1.2	+ 1.3	+ 0.6	Dec	– 5.9	Dec	11.4	Jan§	10.2
Italy	+ 1.0	Q4	– 1.2	+ 1.3	+ 1.4	– 3.2	Dec	– 2.1	Nov	7.7	Jun	8.6
Japan	+ 0.6	Q4	– 0.5	+ 3.0	+ 1.6	+ 1.8	Dec	– 1.0	Dec	4.4	Dec	4.9
Netherlands	+ 1.3	Q4	– 0.3	+ 1.3	+ 1.3	+ 0.1	Dec	– 0.6	Nov‡	6.5	Jan**	6.1
Spain	+ 2.7	Q4	+ 3.2	+ 2.4	+ 2.4	+ 1.3	Dec	+ 2.5	Dec	10.4	Dec	11.2
Sweden	+ 3.9	Q3	+ 3.8	+ 3.4	+ 2.9	– 3.7	Dec	+ 4.8	Dec	5.5	Jan†	5.9
Switzerland	+ 1.8	Q3	+ 1.4	+ 1.7	+ 1.7	+ 3.5	Q3	– 0.5	Dec	4.1	Jan†	4.3
United States	+ 3.7	Q4	+ 3.1	+ 4.3	+ 3.5	+ 4.0	Jan	+ 5.9	Dec	5.2	Jan	5.7
Euro area	+ 1.6	Q4	+ 0.8	+ 1.8	+ 1.6	+ 1.0	Dec	+ 0.5	Dec	8.9	Dec	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 3.2	Q3	+ 4.3	na	na	+12.0	Dec	+ 5.1	Dec	9.8	Jan†	9.5
Greece	+ 4.0	Q4	nil	na	na	– 0.9	Dec	+ 2.8	Nov	10.7	Mar	9.8
Iceland	+ 7.4	Q3	na	na	na	na		na		2.7	Dec†	3.4
Ireland	+ 5.8	Q3	na	na	na	+ 0.3	Dec	+ 3.4	Dec	4.2	Jan	4.4
Luxembourg	+ 2.12003		na	na	na	+ 2.4	Nov	+ 5.4	Nov	4.5	Dec	4.2
New Zealand	+ 4.0	Q3	+ 1.9	na	na	+ 4.5	Q3	+ 6.8	Q4	3.6	Q4	4.5
Norway	+ 1.8	Q3	– 3.9	na	na	– 0.5	Dec	+ 2.4	Dec	4.1	Jan‡	4.3
Portugal	+ 0.8	Q3	– 4.9	na	na	– 2.1	Dec	+ 5.2	Dec	7.1	Q4†	6.5

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Oct-Dec; claimant count rate 2.6% in Jan. §EU harmonised rate 10.0% in Dec. **Nov-Jan.

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Prices and wages

Feb 24th 2005
From The Economist print edition

% change on year ago

	Consumer prices		The Economist poll consumer prices forecast		Producer prices		Wages/earnings		
	latest	year ago	2004	2005	latest	year ago	latest		year ago
Australia	+ 2.6 Q4	+ 2.4	+ 2.3	+ 2.4	+ 8.2 Q4	– 1.1	+ 3.7	Q3	+ 5.1
Austria	+ 2.9 Dec	+ 1.2	+ 2.0	+ 1.7	+ 4.7 Jan	+ 2.2	+ 2.0	Dec	+ 2.3
Belgium	+ 2.3 Jan	+ 1.6	+ 2.0	+ 1.8	+ 3.3 Jan	+ 1.9	+ 2.4	Oct	+ 1.8
Britain	+ 1.6 Jan*	+ 1.4	+ 1.5	+ 1.7	+ 2.6 Jan	+ 1.6	+ 4.3	Dec†	+ 3.4
Canada	+ 2.0 Jan	+ 1.2	+ 1.9	+ 2.0	+ 3.8 Dec	– 3.5	+ 2.3	Oct	+ 3.2
Denmark	+ 1.0 Jan	+ 1.1	+ 1.1	+ 1.6	+ 3.0 Jan	+ 0.3	+ 2.9	Q3	+ 3.7
France	+ 1.6 Jan	+ 2.0	+ 2.2	+ 1.6	+ 3.0 Dec	+ 0.3	+ 2.7	Q3	+ 2.9
Germany	+ 1.6 Jan	+ 1.2	+ 1.7	+ 1.3	+ 3.4 Jan	+ 0.4	+ 1.5	Dec	+ 1.5
Italy	+ 1.9 Jan	+ 2.2	+ 2.2	+ 2.0	+ 4.2 Dec	+ 0.8	+ 3.3	Dec	+ 2.7
Japan	+ 0.2 Dec	– 0.4	nil	+ 0.3	+ 1.3 Jan	nil	– 0.5	Dec	+ 3.0
Netherlands	+ 1.5 Jan	+ 1.3	+ 1.3	+ 1.2	+ 5.2 Dec	– 0.3	+ 0.7	Jan	+ 1.7
Spain	+ 3.1 Jan	+ 2.3	+ 2.8	+ 2.7	+ 5.0 Dec	+ 1.1	+ 2.2	Q3	+ 3.1
Sweden	nil Jan	+ 0.8	+ 0.6	+ 1.3	+ 2.0 Dec	– 1.9	+ 2.4	Nov	+ 3.4
Switzerland	+ 1.2 Jan	+ 0.2	+ 0.9	+ 1.1	+ 1.3 Jan	– 0.2	+ 1.4	2003	+ 1.8
United States	+ 3.0 Jan	+ 1.9	+ 2.7	+ 2.4	+ 4.3 Dec	+ 4.3	+ 2.6	Jan	+ 2.0
Euro area	+ 2.1 Jan	+ 1.9	+ 2.1	+ 1.7	+ 3.6 Dec	+ 1.0	+ 2.0	Q3	+ 2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*								
Finland	+ 0.2 Jan	+ 0.2	na	na	+ 1.2 Jan	– 0.7	+ 3.1	Q3	+ 4.3
Greece	+ 4.0 Jan	+ 2.9	na	na	+ 2.9 Dec	+ 2.1	na		na
Iceland	+ 4.5 Feb	+ 2.3	na	na	+ 8.6 Jan	+ 1.3	+ 6.0	Dec	+ 5.4
Ireland	+ 2.3 Jan	+ 1.8	na	na	– 1.6 Dec	– 9.1	+ 4.5	Q3	+ 4.6
Luxembourg	+ 2.0 Jan	+ 2.1	na	na	+17.0 Dec	+ 0.1	+ 2.5	Nov	na
New Zealand	+ 2.7 Q4	+ 1.6	na	na	+ 3.4 Q4	– 0.1	+ 2.5	Q4	+ 2.3
Norway	+ 1.1 Jan	– 1.8	na	na	+11.7 Jan	– 0.1	+ 4.6	Q3	+ 4.2
Portugal	+ 2.0 Jan	+ 2.3	na	na	+ 4.2 Jan	– 0.3	– 0.6	Dec	– 2.9

*New series. RPI inflation rate 3.2% in Jan. †Oct-Dec.

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Denmark

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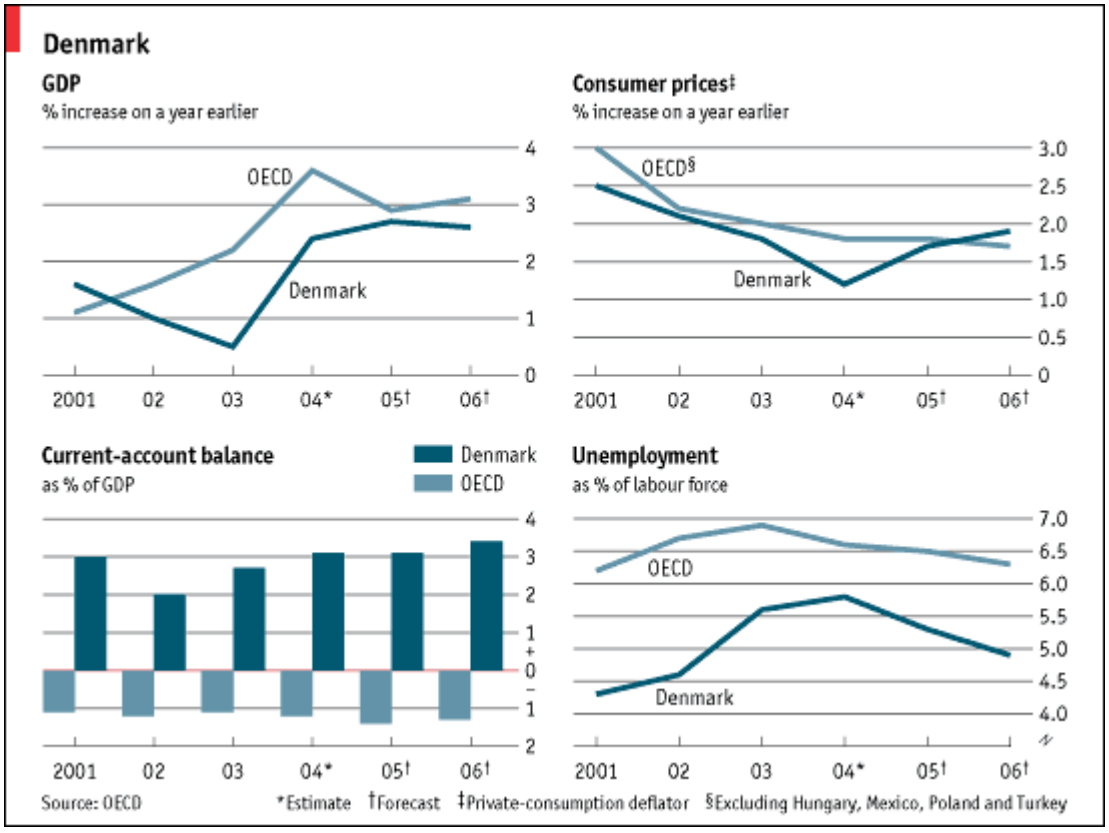
From The Economist print edition



After a period of sluggish growth, Denmark's economy recovered in 2004 and is likely to grow quite strongly over the next two years, says the latest report on the country's prospects from the OECD. Inflation will stay low even though unemployment is set to decline. The current account will remain in substantial surplus. But there are longer-term worries. Without reforms to boost labour supply and productivity growth, population ageing will reduce the growth of GDP per person to 0.6% a year by the 2020s. The OECD says that more needs to be done to increase working hours, reduce early retirement and curtail the length of university education. It also calls for boosting efficiency in the public sector by opening it to more competition. And it says that Denmark's costly schools could do better, for example, by teachers becoming more specialised and flexible.

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Money and interest rates

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From The Economist print edition

	Money supply* % change on year ago			Interest rates % a year (Feb 23rd 2005)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 2.6	+ 9.2	Dec	5.72	5.63	5.48	5.47	5.64	6.39
Britain	+ 5.7	+ 8.9	Jan	4.84	4.13	4.73	4.74	4.77	5.23
Canada	+11.2	+10.4	Dec	2.43	2.13	2.94	4.29	4.41	5.65
Denmark	+14.4	+12.7	Dec	2.20	2.15	2.44	3.71	4.19	4.98
Japan	+ 4.2	+ 2.0	Jan	0.02	0.03	0.11	1.41	1.21	1.52
Sweden	– 0.2	+ 4.6	Dec	1.95	2.42	2.15	3.80	4.42	2.16
Switzerland	– 5.6	+ 1.7	Jan	0.75	0.26	0.91	2.15	2.46	2.18
United States	+ 4.9	+ 5.9	Jan	2.81	1.05	3.45	4.27	3.99	5.44
Euro area†	+ 8.4	+ 6.4	Dec	2.14	2.07	2.46	3.65	4.03	3.82

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.66%, Japan No. 267 1.40%. Central bank rates: US fed funds 2.50%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.75%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Feb 24th 2005
From The Economist print edition

2000=100

	Feb 15th	Feb 22nd*	% change on one month	% change on one year
Dollar index				
All items	128.6	132.2	+ 5.5	– 3.2
Food	121.1	123.7	+ 4.8	– 9.8
Industrials				
All	138.4	143.3	+ 6.3	+ 5.4
Nfa†	127.1	128.1	+ 3.1	–12.1
Metals	144.6	151.6	+ 7.9	+16.0
Sterling index				
All items	103.4	105.2	+ 3.2	– 4.2
Euro index				
All items	91.7	92.5	+ 3.4	– 7.2
Yen index				
All items	124.9	127.9	+ 5.6	– 6.7
Gold				
$ per oz	425.13	434.35	+ 2.6	+ 7.7
West Texas Intermediate				
$ per barrel	47.26	50.67	+ 2.1	+46.6

* Provisional. † Non-food agriculturals.

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Stockmarkets

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From The Economist print edition

Market indices

	Feb 23rd	2004-05 high	2004-05 low	% change on one week	% change on record high	% change on Dec 31st 2003 in local currency	% change on Dec 31st 2003 in $ terms
Australia (All Ordinaries)	4,103.3	4,182.9	3,274.9	– 1.0	– 1.9	+24.1	+29.4
Austria (ATX)	2,580.0	2,661.0	1,568.9	– 2.2	– 2.2	+67.0	+74.7
Belgium (Bel 20)	3,053.6	3,128.9	2,244.2	– 2.2	–17.1	+36.1	+42.3
Britain (FTSE 100)	4,988.5	5,060.8	4,287.0	– 1.3	–28.0	+11.4	+18.6
Canada (Toronto Composite)	9,675.7	9,682.3	8,123.5	+ 0.4	–15.0	+17.7	+22.2
Denmark (KBX)	275.5	277.0	219.0	– 0.1	– 8.7	+29.0	+35.0
France (SBF 250)	2,758.2	2,795.0	2,386.1	– 0.8	–37.2	+14.4	+19.6
(CAC 40)	3,977.2	4,030.5	3,465.3	– 0.8	–42.5	+11.8	+16.9
Germany (DAX)	4,310.7	4,402.0	3,647.0	– 1.3	–46.6	+ 8.7	+13.7
Italy (BCI)	1,499.7	1,559.3	1,239.5	– 3.3	–31.3	+19.3	+24.8
Japan (Nikkei 225)	11,500.2	12,163.9	10,365.4	– 0.9	–70.4	+ 7.7	+ 9.8
(Topix)	1,153.0	1,217.9	1,022.6	– 1.0	–60.0	+10.5	+12.7
Netherlands (AEX)	370.7	375.5	310.7	– 0.5	–47.2	+ 9.8	+14.8
Spain (Madrid SE)	1,000.1	1,025.8	804.4	– 2.0	–12.8	+23.8	+29.5
Sweden (Affarsvarlden Gen)	229.5	231.9	188.5	– 0.4	–42.7	+21.8	+27.2
Switzerland (Swiss Market)	5,867.2	5,934.4	5,309.7	– 0.1	–30.3	+ 6.9	+13.4
United States (DJIA)	10,673.8	10,854.5	9,750.0	– 1.5	– 8.9	+ 2.1	+ 2.1
(S&P 500)	1,190.8	1,213.6	1,063.2	– 1.6	–22.0	+ 7.1	+ 7.1
(NASDAQ Comp)	2,031.3	2,178.3	1,752.5	– 2.7	–59.8	+ 1.4	+ 1.4
Europe (FTSEurofirst 300)*	1,084.5	1,103.2	940.9	– 1.1	–36.4	+13.2	+18.4
Euro area (FTSE Euro 100)*	926.3	944.6	787.2	– 1.4	–40.3	+11.4	+16.5
World (MSCI)†	1,160.7	1,172.3	997.0	– 0.8	–19.9	+12.0	+12.0
World bond market (Citigroup)‡	654.9	666.7	575.1	+ 0.5	– 1.8	+ 8.5	+ 8.5

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Feb 24th 2005
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		The Economist poll % of GDP, forecast 2004	2005	Exchange rate trade-weighted† 1990=100 Feb 23rd	year ago	Currency units per $ Feb 23rd	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2004‡
Australia	− 18.0	Dec	− 36.2	Q3	− 6.0	− 5.4	88.8	90.2	1.27	1.29	2.43	1.68	1.21	+ 0.7
Austria	+ 0.5	Nov	− 0.9	Dec	− 0.6	− 0.7	106.1§	105.1	0.76	0.80	1.44	–	0.72	− 1.5
Belgium	+ 20.9	Dec	+ 11.7	Sep	+ 3.7	+ 3.5	106.7§	105.4	0.76	0.80	1.44	–	0.72	− 0.1
Britain	−105.5	Dec	− 47.4	Q3	− 2.3	− 2.6	103.2	106.5	0.52	0.53	–	0.69	0.50	− 3.2
Canada	+ 51.6	Dec	+ 26.7	Q3	+ 2.7	+ 2.1	91.7	86.0	1.24	1.34	2.37	1.64	1.18	+ 1.1
Denmark	+ 9.8	Dec	+ 5.8	Dec	+ 2.9	+ 2.8	107.3	106.9	5.64	5.94	10.7	7.44	5.37	+ 0.9
France	− 9.6	Dec	− 5.3	Dec	nil	+ 0.1	110.6§	109.1	0.76	0.80	1.44	–	0.72	− 3.7
Germany	+194.2	Dec	+ 96.0	Dec	+ 3.0	+ 3.0	108.5§	106.7	0.76	0.80	1.44	–	0.72	− 3.9
Italy	− 0.7	Dec	− 12.0	Nov	− 0.9	− 1.0	78.6§	77.5	0.76	0.80	1.44	–	0.72	− 2.9
Japan	+132.3	Dec	+171.8	Dec	+ 3.6	+ 3.5	135.4	133.9	105	109	200	139	–	− 6.5
Netherlands	+ 37.0	Dec	+ 24.1	Q4	+ 3.0	+ 3.1	106.2§	104.9	0.76	0.80	1.44	–	0.72	− 2.9
Spain	− 72.5	Nov	− 44.5	Nov	− 3.1	− 3.4	78.6§	77.9	0.76	0.80	1.44	–	0.72	− 1.1
Sweden	+ 23.1	Dec	+ 28.0	Q4	+ 6.4	+ 5.7	82.7	80.9	6.89	7.36	13.1	9.09	6.56	+ 0.5
Switzerland	+ 8.3	Jan	+ 44.7	Q3	+12.5	+12.1	114.1	110.5	1.17	1.26	2.22	1.54	1.11	− 1.6
United States	−666.2	Dec	−603.2	Q3	− 5.6	− 5.9	91.1	95.6	–	–	1.91	1.32	0.95	− 4.4
Euro area	+ 92.5	Dec	+ 52.1	Dec	+ 0.5	+ 0.6	93.6	91.6	0.76	0.80	1.44	–	0.72	− 2.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.9	Dec	+ 8.6	Dec	na	na	84.3§	83.2	0.76	0.80	1.44	–	0.72	+ 2.3
Greece	− 31.7	Dec	− 10.0	Dec	na	na	60.7§	60.5	0.76	0.80	1.44	–	0.72	− 5.3
Iceland	− 0.5	Dec	− 0.6	Q3	na	na	96.6**	93.2	61.5	69.5	117	81.1	58.5	+ 0.1
Ireland	+ 41.8	Nov	− 1.6	Q3	na	na	99.9§	97.8	0.76	0.80	1.44	–	0.72	+ 0.2
Luxembourg	− 4.4	Nov	+ 2.3	Q3	na	na	106.7§	105.4	0.76	0.80	1.44	–	0.72	− 0.4
New Zealand	− 2.8	Dec	− 5.3	Q3	na	na	109.7	107.1	1.38	1.45	2.63	1.82	1.31	+ 2.9
Norway	+ 34.5	Jan	+ 33.8	Nov	na	na	98.8	91.6	6.24	7.03	11.9	8.23	5.94	+ 8.2
Portugal	− 18.5	Nov	− 12.6	Nov	na	na	94.0**	93.4	0.76	0.80	1.44	–	0.72	− 2.9

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, December average. ‡OECD estimate.
**IMF, October average.

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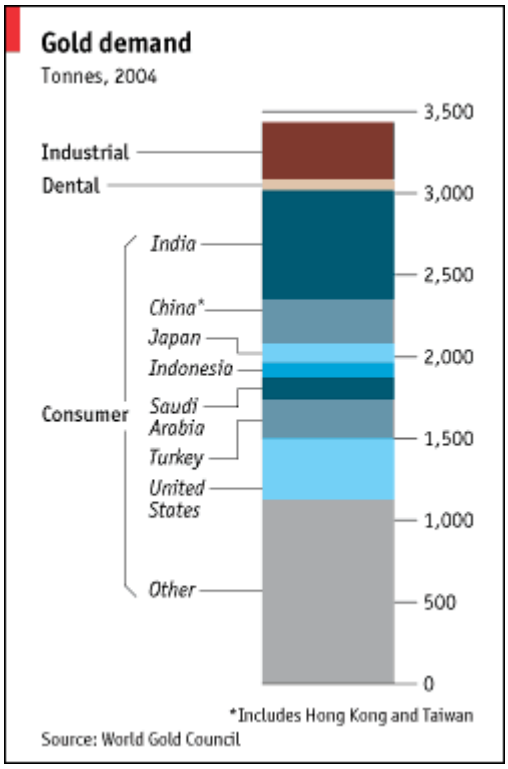
Gold demand

Feb 24th 2005
From The Economist print edition



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Overview

Feb 24th 2005
From The Economist print edition

Consumer prices fell by 0.5% in **Hong Kong**, but rose by 1.9% in **China**, in the 12 months to January.

Russia's industrial output rose in the year to January by 2.1%.

Industrial production in **Israel** rose by 6.6% in 2004, the first calendar year of growth since 2000.

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Country risks

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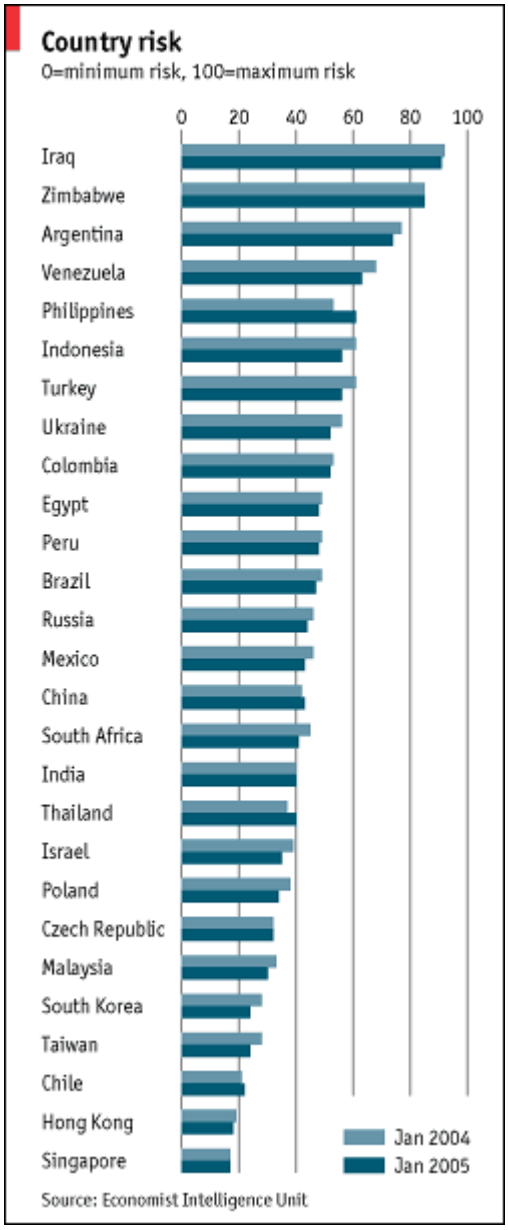
From The Economist print edition

Iraq is a riskier destination for foreign investment than any of the emerging markets tracked on this page, according to the Economist Intelligence Unit (EIU), a sister firm of *The Economist*. The EIU's country-risk ratings, which take account of 77 indicators of political stability and other measures of credit quality, show that the heavily indebted Philippines has become more risky thanks to the sluggish pace of reform. Zimbabwe is almost as risky as Iraq. By contrast, Singapore and Hong Kong continue to be among the safest bets.



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Economy

Feb 24th 2005
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.5	Q4	+14.4	Dec	+ 1.9	Jan	+38.4	Jan	+45.9	2003	609.9	Dec
Hong Kong	+ 7.2	Q3	+ 3.4	Q3	– 0.5	Jan	–12.1	Dec	+14.2	Q3	124.7	Jan
India	+ 6.6	Q3	+ 7.9	Dec	+ 3.8	Dec	–23.6	Jan	+ 3.5	Q3	123.7	Jan
Indonesia	+ 6.7	Q4	– 2.3	Aug	+ 7.3	Jan	+24.1	Dec	+ 4.0	Q3	35.0	Dec
Malaysia	+ 6.8	Q3	+ 5.8	Dec	+ 2.4	Jan	+21.3	Dec	+14.7	Q3	65.9	Dec
Philippines	+ 5.4	Q4	+ 5.7	Dec	+ 8.4	Jan†	– 0.7	Dec	+ 4.4	Sep	12.9	Jan
Singapore	+ 6.5	Q4	+31.7	Dec	+ 0.9	Jan	+15.4	Jan	+29.0	Q3	112.0	Jan
South Korea	+ 4.6	Q3	+ 4.5	Dec	+ 3.1	Jan	+30.2	Jan	+27.6	Dec	199.6	Jan
Taiwan	+ 3.3	Q4	– 0.9	Dec	+ 0.5	Jan	+ 4.7	Jan	+19.0	Q4	242.7	Jan
Thailand	+ 6.0	Q3	+ 3.0	Dec	+ 2.7	Jan	+ 1.7	Dec	+ 7.3	Dec	48.7	Dec
Argentina	+ 8.3	Q3	+ 5.4	Nov	+ 7.2	Jan	+12.1	Dec	+ 3.6	Q3	20.1	Jan
Brazil	+ 6.1	Q3	+ 8.3	Dec	+ 7.4	Jan	+34.3	Jan	+11.7	Jan	52.9	Dec
Chile	+ 6.8	Q3	+10.2	Dec	+ 2.2	Jan	+ 9.4	Jan	+ 2.0	Q3	15.6	Jan
Colombia	+ 2.4	Q3	+ 5.6	Nov	+ 5.4	Jan	+ 0.9	Oct	– 1.4	Q3	13.6	Jan
Mexico	+ 4.9	Q4	+ 3.9	Dec	+ 4.5	Jan	– 9.5	Jan	– 5.5	Q3	64.1	Dec
Peru	+ 9.1	Dec	+10.8	Nov	+ 3.0	Jan	+ 2.7	Dec	– 0.3	Q3	12.3	Jan
Venezuela	+11.2	Q4	+23.1	Nov	+18.5	Jan	+21.5	Q3	+14.6	Q4	18.2	Oct
Egypt	+ 4.7	Q4	+ 3.3	2004‡	+11.4	Dec	– 8.1	Q3	+ 4.1	Q3	13.8	Nov
Israel	+ 2.9	Q3	+ 4.4	Dec	+ 0.8	Jan	– 7.1	Jan	+ 0.5	Q3	27.1	Jan
South Africa	+ 4.7	Q4	+ 7.8	Dec	+ 3.0	Jan	– 1.9	Dec	– 4.7	Q3	13.4	Jan
Czech Republic	+ 3.6	Q3	+ 8.3	Dec	+ 1.7	Jan	– 0.8	Dec	– 6.4	Q3	27.8	Jan
Hungary	+ 3.7	Q3	– 1.4	Dec	+ 4.1	Jan	– 2.5	Q3	– 8.6	Q3	15.0	Jan
Poland	+ 4.8	Q3	+ 6.4	Dec	+ 4.0	Jan	– 6.1	Nov	– 3.0	Dec	35.3	Dec
Russia	+ 6.7	Q4	+ 2.1	Jan	+12.7	Jan	+87.0	Dec	+49.5	Q3	121.2	Jan
Turkey	+ 4.5	Q3	+ 4.7	Dec	+ 9.2	Jan	–34.5	Dec	–15.6	Dec	36.0	Dec
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 6.1	Q3	+ 5.0	Dec	+ 4.2	Jan	– 2.7	Nov	– 1.5	Q3	1.6	Nov
Latvia	+ 9.1	Q3	+ 6.0	Nov	+ 6.6	Jan	– 2.7	Nov	– 1.7	Nov	1.8	Nov
Lithuania	+ 6.4	Q4	na		+ 2.9	Jan	– 3.2	Nov	– 2.0	Q3	3.6	Nov
Slovakia	+ 5.3	Q3	+ 0.4	Dec	+ 3.2	Jan	– 1.4	Dec	– 0.9	Sep	13.4	Nov
Slovenia	+ 4.9	Q3	+ 6.3	Dec	+ 2.2	Jan	– 1.3	Dec	– 0.1	Dec	8.2	Oct
Pakistan	+ 6.4	2004‡	+12.1	Sep	+ 8.5	Jan	– 5.0	Dec	– 0.9	Q4	9.8	Dec
Saudi Arabia	+ 7.2	2003	na		+ 0.6	Nov	+59.1	2003	+28.0	2003	27.3	Dec

*Excluding gold, except Singapore; IMF definition. †New series ‡Year ending June, new series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

Financial markets

Feb 24th 2005
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Feb 23rd		Dec 31st 2003	
	Feb 23rd	year ago	Feb 23rd	% a year		one week	in local currency	in $ terms
China	8.28	8.28	15.8	3.30	1,374.8	+2.4	– 12.4	– 12.4
Hong Kong	7.80	7.78	14.9	1.75	13,957.9	–0.4	+ 11.0	+ 10.5
India	43.6	45.2	83.1	5.23	6,582.5	–0.4	+ 12.7	+ 17.9
Indonesia	9,210	8,440	17,553	7.56	1,102.9	+2.7	+ 59.4	+ 45.8
Malaysia	3.80	3.80	7.24	2.82	899.7	–2.1	+ 13.3	+ 13.3
Philippines	54.7	56.2	104.2	6.38	2,042.8	–1.7	+ 41.6	+ 43.8
Singapore	1.63	1.69	3.10	1.81	2,136.4	–0.9	+ 21.1	+ 26.3
South Korea	1,004	1,170	1,913	3.57	968.4	–0.3	+ 19.5	+ 41.8
Taiwan	31.2	33.2	59.5	1.35	6,121.5	–0.4	+ 3.9	+ 13.1
Thailand	38.4	39.2	73.3	2.53	730.6	–1.2	– 5.4	– 2.5
Argentina	2.93	2.92	5.58	4.44	1,520.9	+0.8	+ 41.9	+ 42.2
Brazil	2.58	2.96	4.92	18.75	27,198.5	+3.1	+ 22.3	+ 36.8
Chile	567	588	1,080	2.88	9,101.7	+1.8	+ 24.1	+ 29.7
Colombia	2,309	2,668	4,401	7.38	5,134.9	+5.8	+120.0	+164.9
Mexico	11.1	11.1	21.1	9.23	13,542.0	–0.7	+ 54.0	+ 56.2
Peru	3.26	3.47	6.21	2.87	4,049.4	+2.8	+ 66.3	+ 76.9
Venezuela	2,860§	3,178§	5,450	13.12	29,847.4	–0.7	+ 34.4	+ 34.1
Egypt	5.80	6.19	11.05	9.90	32,666.1	+1.9	+180.7	+198.3
Israel	4.36	4.46	8.31	1.00	652.5	–2.7	+ 22.1	+ 23.0
South Africa	5.82	6.58	11.1	7.50	13,232.9	+0.4	+ 27.4	+ 46.2
Czech Republic	22.7	25.9	43.2	2.23	1,174.0	+2.2	+ 78.1	+101.6
Hungary	184	206	350	8.10	17,568.9	+1.2	+ 87.3	+111.6
Poland	2.99	3.86	5.69	6.49	27,793.7	+1.1	+ 33.5	+ 67.3
Russia	27.8	28.5	53.0	13.00	673.1‡	+0.9	+ 11.3	+ 15.7
Turkey	1.35	1.33	2.57	18.70	26,921.3	–1.5	+ 47.8	+ 54.5
EMF (MSCI)*	1.00	1.00	1.91	na	571.3	+1.6	+ 29.0	+ 29.0
EMBI+†	1.00	1.00	1.91	na	334.2	–0.4	+ 13.3	+ 13.3

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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